



2024/25
DRAFT STATEMENT OF ACCOUNTS



STATEMENT OF ACCOUNTS

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NARRATIVE STATEMENT

INTRODUCTION

This document presents the statutory financial statements for Southampton City Council covering the period 1 April 2024 to 31 March 2025. The statements can be technical and complex, but we have sought to present them as clearly as we can. The narrative statement provides an overview of the authority's financial position for the year and prospects for the medium term.

The council started the 2024/25 financial year in a financially challenging position. A balanced budget for the year was only achieved with the offer of Exceptional Financial Support (EFS) from the government. The EFS offer was conditional on producing a transformation and improvement plan.

EFS is in the form of a capitalisation direction, which allows the Council to use capital resources to meet revenue expenditure and other potential liabilities. The EFS is not additional funding, and it must be repaid either through capital receipts or borrowing.

Early in 2024/25 the council established a comprehensive transformation programme adapt | grow | thrive aimed at modernising service delivery whilst putting the council back on a sustainable financial footing. The programme delivered £9.6M of savings in 2024/25, helping to reduce reliance on EFS, and is key to balancing the budget in 2025/26 and future years.

Strengthening financial management and an emphasis on budget management and accountability have been a primary focus for 2024/25. Budget holder accountability statements were introduced at the outset of the financial year and a budget review panel, chaired by the Chief Executive, operated during the year to ensure any forecast overspends identified were quickly addressed through deficit recovery plans.

The combination of tight budgetary control and early delivery of benefits from the transformation programme has helped reduce the EFS needed to balance the revenue account in 2024/25. The budget agreed in March 2024 included £39.3M of EFS to support the day to day running of the council and this has been reduced to £18.4M at outturn. Further details on the financial performance for the year are provided in section 3. EFS has also been utilised to provide for equal pay claims, other than for schools' staff whose costs are chargeable to the Dedicated Schools Grant. A provision of £49.2M for potential equal pay claims has been recognised on the balance sheet of which £31.3M relates to the General Fund, £7.0M relates to the Housing Revenue Account, and £10.9M relates to Dedicated Schools Grant.

Looking ahead into 2025/26 and beyond, the council has made significant progress towards financial sustainability. A balanced revenue budget for 2025/26 was set in February 2025 without the need for EFS for day-to-day spending and each year of the medium term financial forecast was balanced without the need to use reserves. This is heavily dependent on the delivery of savings from the transformation programme, with £34.5M of transformation savings included in the 2025/26 budget, rising to £50.8M by 2028/29. The council's growth strategy is expected to generate additional council tax and business rates income in the medium term and a growth target has been included in the later years of the medium-term financial forecast to achieve a balanced position. Unused EFS carried forward from 2024/25 will be required in 2025/26 to fund one-off costs relating to the on-going cost of transformation and to finance service redesign and restructuring. It may also be required to help manage financial risk, notably in relation to delivery of transformation savings.

The council will build on the budget management and accountability improvements introduced in 2024/25. A Benefits Realisation Group has been established to track the delivery of financial and non-financial benefits of the transformation programme. The work of this group will be used to inform overall financial monitoring.

The council, like all other authorities, has uncertainty over future levels of government funding. The government has begun consulting on reforms to the local government finance system and changes to the business rates retention scheme, both to be introduced in 2026/27. The Spending Review

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announced on 11 June 2025 gave an indication of the resources available to local government over the next few years. However, details of funding at a local level are not likely to be available until the local government finance settlement in December 2025 and will depend on the outcome of the consultation on funding reform.

Whilst it is considered reserves need to be increased to cover the risk faced by the council, the availability of EFS in 2025/26 to help deal with any financial pressures has ensured the council can set a balanced budget. In the medium term the transformation programme will be the main vehicle for ensuring the council can continue to deliver services within the resources available.

The narrative statement is structured 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 7 on page 120.

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 2024/25 there were no arrangements that require this. Note 36 on page 102 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 statement of accounts
5. 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.

There are several 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 for the City

Population 264,957
(HCC - SAPF-2023)

Southampton covers
49.8km²

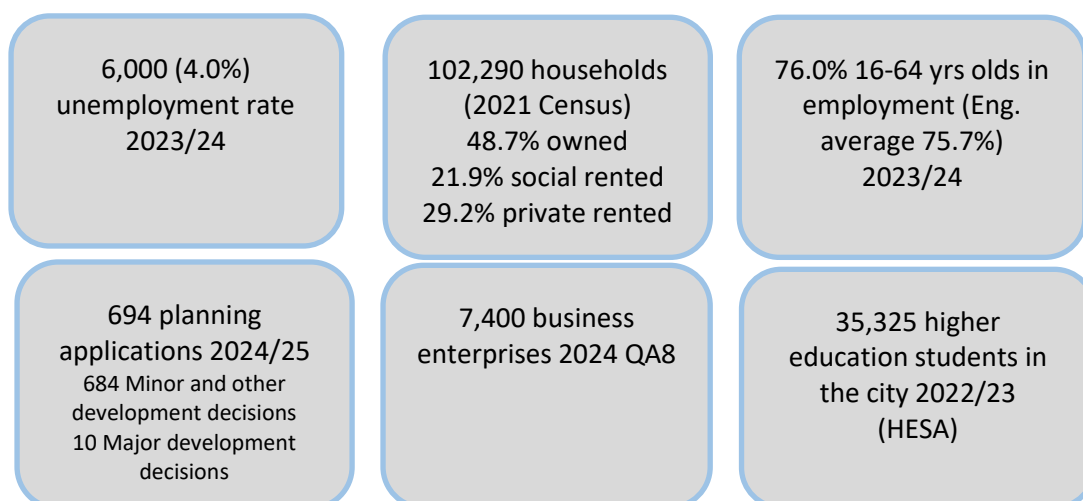
Average house price
£242,008 January
2025

University of
Southampton ranked
20th in 2025 league
tables

Southampton ranked
3rd in 2024 for Good
Growth Cities index
(2024)

Average gross weekly
(full time) earnings
£690 (£716 Eng.
average) 2024
(resident)

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Sources: Southampton City Council, Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, BRES and HESA

Council related statistics

- Our green spaces are free and open to everyone, all year round. We maintain over 416 miles of highways verges and over 200 green spaces covering circa 950 hectares or around 20% of the land use in Southampton. The green spaces include parks, gardens, recreation grounds, natural habitats, ecology areas managed for wildlife (around 75 sites), woodlands and greenways.
- 11x Green Flag awards for 5 Central Parks (as a collective award), St James' Park, Portswood Rec, Riverside Park, Freemantle Lake Park, Town Quay Park, Mayfield Park, Mansel Park, Millers Pond and Cedar Lodge Park.
- We also maintain over 100 play areas, 24 multi use games areas, 7 Tennis courts, 6 Skateparks, the Southampton Municipal Golf Course and a mini-golf course.
- There are approximately 850 curb miles of streets to clean along with the city centre precinct, guildhall square and 5 plus district centres. Street Cleansing also undertake all the cleaning works in multi-storey car parks, specialist cleaning of the city's monuments and run the crash cushion programme, enabling us to work on our dual carriageways and higher speed roads safely.
- 95% of Southampton residents are within a 30 minute walk of a local library.
- In 2024/25 Southampton libraries welcomed 537,500 visitors, shared over 768,000 physical and e-books and answered 147,000 questions. Supported 1,240 people with their digital skill needs and enabled over 135,000 uses of PCs or public Wi-Fi. Celebrated books and reading with 2,214 children who joined the Summer Reading Challenge. Reached 65 people each month, who aren't able to leave home, with a sustainable green library delivery service through the Solent FTZ programme. With the support of volunteer Friends of Libraries groups, hosted and ran 2,800 activities in libraries which encouraged over 45,000 attendees to take part in a cultural activity to support reading, wellbeing, learning, advice. Facilitated 336,000 online resource uses (newspapers, magazines, family history resources, training).
- The Archives Service has researched and supported over 900 queries about Southampton, about its people and its history.
- The Business and IP Centre in Central library, supported by the British Library and SBSS, has helped 480 people develop their business ideas.
- The Schools Library Service has delivered 54 local schools with books, professional advice and library support.
- 1,273 people have benefitted from face to face support from Citizens Advice Southampton and the Environment Centre delivered with local libraries.

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- Southampton Museums and Gallery Learning and Engagement Team provided activities at our three city venues, Southampton City Art Gallery, SeaCity Museum and Tudor House & Garden, as well as through a programme of outreach activity in the community and online. 44,500 school children, young people and adult learners took part in engagement visits, workshops, talks / tours and collection inspired projects throughout the year.
- The Learning and Engagement Team delivered 15 Service Level Agreements to local schools, reached 750 hard to reach adults in the local community through its provision for SCC Community Learning, engaged 6 children in 72 1:1 sessions through partnership working with SCC Virtual School and delivered 50 HAF funded sessions to local families entitled to free school meals.
- Received 325,443 customer calls, spending 27,000 hours assisting customers across 35 lines between April 2024 and March 2025.
- Over 5,000 visits face to face to Gateway between April 2024 and March 2025.
- We provide 15,841 council houses, as of 31 March 2025.
- We support 2,588 people (provisional) in long term care as of 31 March 2025.
- We work with and support 76 schools in the city.
- 4,206 under 5 children used the children centres in 2024 and they made 18,704 visits (total number of different day each individual attended) and engaged in 22,588 activities.
- We look after 488 children in care (97 per 10,000 people).
- 1,626 Commercial Waste Customers and 18,918 Garden Waste Customers.
- Empty around 132,000 bins from households every week.
- We recycled, composted and reused 26,405 tonnes of waste in 2023/24 full year (provisional).
- Service and maintain about 470 vehicles.
- City Telecare Services offers 24 hour help to more than 6,200 city residents and over 1,600 Portsmouth residents.
- We have about 3,245 supported housing properties which have the Community Alarm Monitoring property element.
- 2,074 supported properties for people aged over 60.
- We have 220 Extra Care properties in the city.

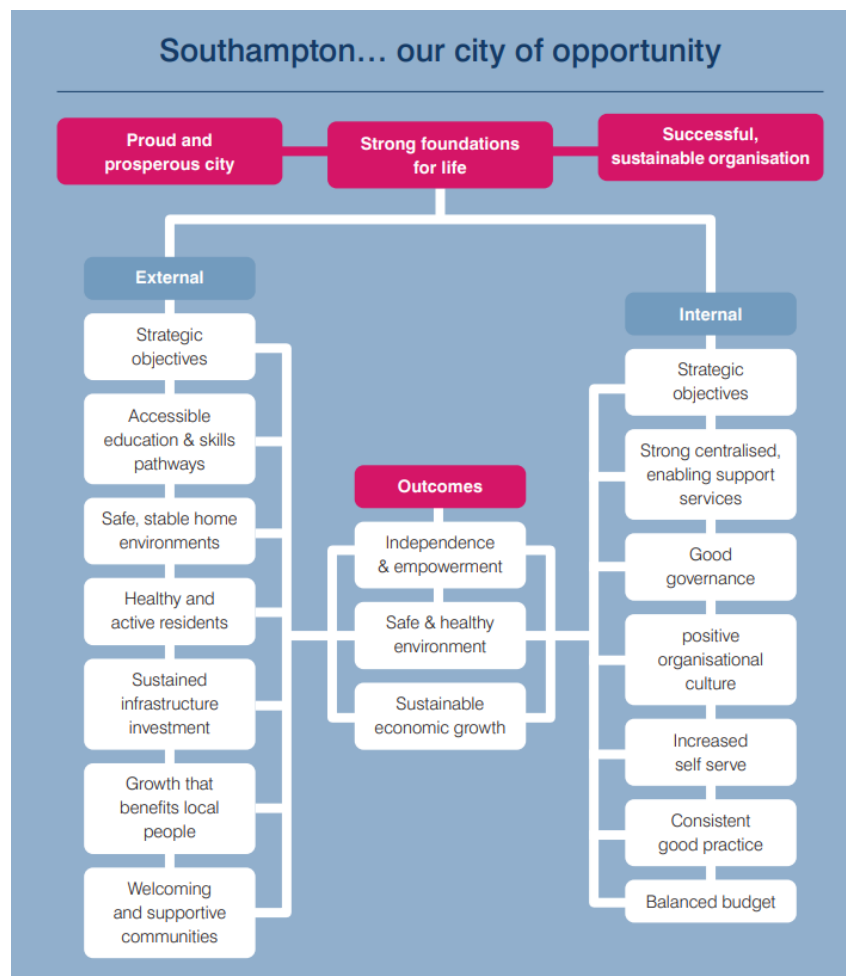
Southampton City Council: Corporate Plan (Update 2024)

The council's Corporate Plan was updated in March 2024 to reflect our changing circumstances as a council and a city, acknowledging the challenging financial position being faced while still maintaining a vision of the city of opportunity. A new Corporate Plan will be published in July. The following describes the 2024 plan.

The plan commits to creating a place where people want to live, work, study, visit and enjoy. We will continue to work with community leaders, partners, and businesses across the city to deliver the plan for and with the people of Southampton to achieve the city's ambitions.

The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.

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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. Charged with directing the outcomes, priorities and policies of the Council are the 51 elected Councillors. The next section describes the political and management structure of the Council.

Political Structure

Southampton City Council is a unitary authority split into 17 wards each represented by 3 councillors. The political structure as at 31 March 2025 was as follows:

- Labour 34
- Conservative 10
- Liberal Democrats 5
- Green 2

Council Management Board

Supporting the work of the elected members is the Council's Management Board (MB). The makeup of the board corresponding to the directorate structure in place at the end of 2024/25 is detailed below. Note 26 shows further detail of people that were in a strategic post during 2024/25.

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Chief Executive – **Andrew Travers (interim)**

Executive Director – Community Wellbeing, Children & Learning – **Robert Henderson**

Executive Director – Enabling Services & S151 Officer – **Mel Creighton**

Executive Director – Growth & Prosperity – **Stephen Haynes**

Executive Director – Resident Services – **Debbie Ward (interim)**

Director – Strategy & Performance – **Munira Holloway**

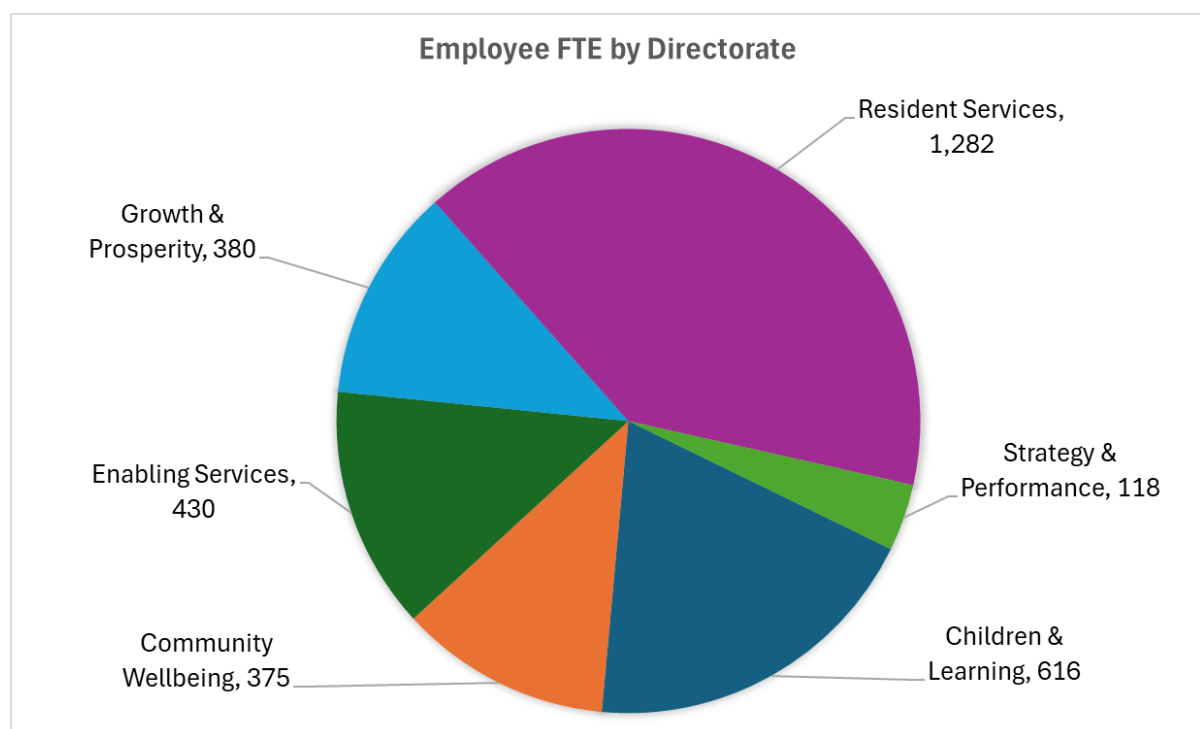
Director – Legal & Governance – **Richard Ivory**

Head of Chief Executive's office – **Kerry Sillence**

The board works together with the administration to set out the priorities and themes contained within the Southampton City Council Corporate Plan.

Staffing

The Council employs circa 3,202 Full Time Equivalents to deliver these priorities (excluding school employees). The following chart shows how these support the different Council services:



The Council's Performance

The measures used to monitor and report on the Corporate Plan are shown below. This indicates performance levels, comparative information and trends.

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Scorecard									 SOUTHAMPTON CITY COUNCIL	
KPI Description	Period	Previous Result	Latest Result	Change	Target	National	Peer	Trend		
Rate of Looked After Children (per 10,000)	March 2025	92.45	92.65	▲ 0.20	⚠ 86.60	➖ 70.00	✅ 99.80			
Key Stage 4 - Percentage of pupils achieving a grade 5 or above in English & Maths	2024	38.10	38.30	▲ 0.20	⚠ 40.00	➖ 46.20	⚠ 40.30			
Southampton's relative deprivation rank amongst Local Authorities in England	2019	54.00	55.00	▲ 1.00	➖ 74.00	●	✅ 53.20			
Healthy life expectancy at birth (male)	2021 - 23	61.21	59.01	▼ -2.20	➖ 65.60	⚠ 61.52	✅ 57.56			
Healthy life expectancy at birth (female)	2021 - 23	62.21	59.83	▼ -2.38	⚠ 65.34	⚠ 61.88	✅ 57.72			
Physically active adults	2022/23	65.89	66.91	▲ 1.02	➖ 80.40	⚠ 67.14	⚠ 67.50			
Percentage of children in Year 6 with excess weight	2023/24	40.36	40.44	▲ 0.08	➖ 30.82	➖ 35.85	⚠ 38.86			
Economic growth measured by GVA per head £	2022	36,060.00	39,665.00	▲ 3,605.00	✅ 33,976.00	✅ 33,976.00	✅ 33,843.00			
Percentage of working age adults claiming out of work benefits	March 2025	4.40	4.50	▲ 0.10	⚠ 4.30	⚠ 4.30	⚠ 4.25			
Gap in median weekly pay between residents and workers	2024	54.00	26.00	▼ -28.00	➖ 0.00	➖ 0.00	➖ 18.00			
Percentage of economically active population (age 16-64) with no or low qualifications	2023	5.00	7.70	▲ 2.70	➖ 5.80	➖ 5.80	➖ 5.50			
Proportion of residents that agree that their local area is a place where people from different backgrounds get on well together (%)	2025	74.00	58.00	▼ -16.00	●	●	●			
Percentage of SCC homes that meet the decent homes standard	2024/25 - Q4	49.30	50.30	▲ 1.00	➖ 57.40	➖ 97.00	●			

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3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2024/25 was agreed at full council on 6 March 2024 and included a council tax increase of 4.99% and £22.7M of new planned savings, plus £1.9M of additional savings agreed in previous years. The budget was balanced using £39.3M of Exceptional Financial Support (EFS) from the government. This support is in the form of a capitalisation direction, which allows the council to use capital resources to meet revenue expenditure. The following sections describe the actual performance for the year.

The council incurs both revenue and capital expenditure. The revenue account (known as the General Fund or GF) 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 asset improvements, and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the council's revenue outturn position and variances from the budget.

General Fund Revenue Account: Outturn Position 2024/25	Budget 2024/25	Outturn 2024/25	Outturn Variance 2024/25
	£M	£M	£M
Directorate			
Children & Learning	49.86	48.02	(1.85) F
Community Wellbeing	77.91	73.47	(4.44) F
Enabling Services	27.31	26.72	(0.59) F
Growth & Prosperity	35.55	33.66	(1.89) F
Resident Services	26.24	25.07	(1.17) F
Strategy & Performance	5.66	4.96	(0.70) F
Sub total for Directorates	222.52	211.89	(10.63) F
Levies & Contributions	0.10	0.09	(0.00) F
Capital Asset Management	9.92	9.28	(0.63) F
Contribution to General Fund Balance	1.93	1.93	0.00 A
Other Expenditure & Income	20.30	10.82	(9.48) F
Net Council Expenditure before EFS	254.77	234.03	(20.74) F
Financed By:			
Council Tax	(120.44)	(120.44)	0.00 A
Business Rates	(54.35)	(54.35)	0.01 A
Non-Specific Government Grants & Other Funding	(40.69)	(40.85)	(0.16) F
Total Financing	(215.49)	(215.64)	(0.15) F
Net Over/Underspend before EFS	39.28	18.38	(20.89) F
Exceptional Financial Support (EFS)	(39.28)	(18.38)	20.89
Net Over/Underspend after EFS	0.00	0.00	0.00

Numbers are rounded. An adverse variance is indicated by 'A' and a favourable variance by 'F'

All services were set the challenge of underspending in 2024/25, to minimise reliance on Exceptional Financial Support. Beginning in the second quarter of the year, sustained favourable variances identified

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through financial monitoring were taken centrally to contingency to reduce the EFS requirement, in accordance with the Council's Business Planning and Budgeting Framework. In total £14.2M of sustained favourable variances achieved by services through demand management transformation activity and other measures were transferred to contingency. Alongside this, for any forecast adverse variances services were required to implement deficit recovery plans to mitigate potential overspending.

There was a strong focus on delivering savings built into the budget, which had been an area of weakness in previous years. In total £24.4M (99%) of the £24.6M savings target for the year were delivered.

Through a combination of tight budgetary control and early achievement of savings through the transformation programme, the overall position before EFS was an underspend of £20.9M against the budget. This led to a reduction in the EFS needed to balance the revenue account from £39.3M to £18.4M.

Each directorate had a favourable variance at outturn, even after taking sustained favourable variances centrally during the year. The main outturn variances are:

- Children & Learning (£1.8M favourable) with positive variances for family help from additional grant and reduced staffing spend (£0.3M), reduced staffing and other spend for quality assurance (£0.3M) and safeguarding (£0.3M), and for children looked after for staff savings and care package costs (£0.3M), together with other net favourable variances elsewhere totalling £0.6M.
- Community Wellbeing (£4.4M favourable) with the main positive variances being for non-recurrent staffing savings across teams (£2.7M), lower costs with the respite service redesign starting later than initially planned (£0.5M), lower costs and increased income in whole life pathway learning disabilities and mental health cost of care budgets (£0.5M) and use of grant funding and reduced spend for stronger communities (£0.4M), together with net favourable variances elsewhere totalling £0.3M.
- Enabling Services (£0.6M favourable) from positive variances for staffing vacancies (£0.9M), additional income (£0.5M) and council tax legal costs and other expenses (£0.3M), reduced by adverse variances for unsubsidised housing benefits expenditure (£0.3M) and not meeting self-insurance claims from reserves (£0.9M).
- Growth and Prosperity (£1.9M favourable) mainly relating to reduced staffing and energy costs and increased recharge income within property services (£0.8M), school travel service transformation savings (£0.7M), reduced staffing costs for transportation (£0.6M) and favourable variances elsewhere totalling £0.7M. There are adverse variances for investment property income (£0.4M), higher costs for central repairs & maintenance (£0.3M) and for planning mainly from reduced income (£0.2M).
- Resident Services (£1.2M favourable) mainly due to increased port health income (£0.5M), and favourable variances for environmental health and trading standards (£0.4M), waste (£0.9M) and the service centre (£0.4M) from staffing vacancies, increased income and reduced waste disposal costs, plus social fund costs being grant funded (£0.1M). There are adverse variances for leisure unrecovered utility costs (£0.7M), housing needs homelessness costs (£0.3M) and for district operations (£0.2M).
- Strategy & Performance (£0.7M favourable), mainly due to staffing vacancies (£0.5M) and additional income (£0.1M).
- Centrally held budgets (£10.1M favourable) relating to savings transferred from directorate budgets and capital asset management during the year (£14.2M) and further favourable variances on capital financing costs (£0.6M), reduced by £4.7M transformation programme expenditure net of contingency.

Expenditure and Funding Analysis

The statutory accounts include an analysis 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 22 and further in Note 8.

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

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Directorate Outturn Position 2024/25	Budget 2024/25	Outturn 2024/25	Outturn Variance 2024/25
	£M	£M	£M
Salaries & Wages	151.07	156.36	5.29 A
Premises Costs	14.42	13.43	(1.00) F
Transportation Costs	12.26	11.21	(1.05) F
Supplies & Services	124.70	133.66	8.96 A
Internal Charges	18.42	31.08	12.66 A
Other Direct Costs	357.04	374.99	17.95 A
Total Expenditure	677.91	720.73	42.81 A
Internal Income	(46.84)	(63.33)	(16.50) F
Fees, Charges & Rents	(58.18)	(62.81)	(4.62) F
Grants / Contributions	(350.37)	(382.70)	(32.33) F
Total Net Expenditure	222.52	211.89	(10.63) F

Numbers are rounded

This analysis excludes the HRA when compared to the EFA.

COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is reflected in the following year's Council Tax calculations. The Business Rates element of the Collection Fund operates in a broadly similar way.

The Collection Fund has a surplus of £4.5M at 31 March 2025, being a surplus of £5.1M for Business Rates and a deficit of £0.6M for Council Tax. The surplus for Business Rates includes £1.8M carried forward from 2023/24 but not distributed during the year. The Collection Fund statement is included on page 112.

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 must 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 107 to 111.

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HRA Outturn Position

The table below shows the HRA outturn position. A planned surplus of £0.5M in line with the business plan position allowed for the HRA working balance to be increased from £2.6M to £3.1M.

Housing Revenue Account: Outturn Position 2024/25	Budget 2024/25	Outturn 2024/25	Outturn Variance 2024/25	
	£M	£M	£M	
<u>EXPENDITURE</u>				
Responsive Repairs	18.10	20.38	2.28	A
Housing Investment	6.99	7.08	0.08	A
Total Repairs	25.09	27.45	2.36	A
Rents Payable	0.45	0.85	0.40	A
Debt Management	0.09	0.09	0.00	A
Supervision & Management	29.80	28.60	(1.19)	F
Interest and Principal Repayments	6.46	6.94	0.48	A
Depreciation	22.35	20.82	(1.54)	F
Capital Financing	0.54	0.51	(0.03)	F
TOTAL EXPENDITURE	84.78	85.27	0.49	A
<u>INCOME</u>				
Dwelling Rents	(80.29)	(80.28)	0.01	A
Other Rents	(1.21)	(1.12)	0.09	A
Total Rental Income	(81.50)	(81.40)	0.10	A
Service Charge Income	(2.53)	(2.56)	(0.03)	F
Leaseholder Service Charges	(1.14)	(1.69)	(0.55)	F
Interest Received	(0.11)	(0.12)	(0.02)	F
TOTAL INCOME	(85.27)	(85.77)	(0.50)	F
(SURPLUS)/DEFICIT FOR YEAR	(0.50)	(0.50)	(0.00)	F
<u>BALANCES</u>				
Working Balance B/Fwd	2.59	2.59	0.00	
Surplus/(deficit) for year	0.50	0.50	0.00	
WORKING BALANCE C/FWD	3.09	3.09	0.00	

Numbers are rounded

DEDICATED SCHOOLS GRANT (DSG)

The Dedicated Schools Grant (DSG) is a ring-fenced grant received from Government that must be used to fund schools expenditure. Primarily arising from demand pressures within services covered by the High Needs Block (HNB), the DSG ran into deficit in recent years. In 2024/25 the cost of making a provision for potential equal pay claims from schools' employees has added to the net deficit, which has increase to

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£17.0M at 31 March 2025 compared with £7.1M at the previous year-end. Normally, this deficit would need to be covered by the council's General Fund reserves, but Government has put in place a statutory override of this requirement until the end of 2027/28, effectively meaning the DSG deficit is not required to be covered by the council's General Fund reserves until after 1 April 2028.

An increase in High Needs funding has helped mitigate some of the pressure being experienced on the HNB and further work is being undertaken as part of the Department for Education's programme Delivering Better Value in Special Educational Needs & Disabilities (SEND) to address the deficit to reduce the need for higher levels of intervention. The council has put in place a strategy to manage the increase in High Needs which includes developing SEND units and resource provisions within mainstream schools reducing the need for more expensive independent placements. The Capital Programme contains a SEND expansion programme totalling £40.8M, for investment to create extra SEND school spaces within the city.

CAPITAL

The capital programme budget for the year, including changes approved during the year, was £137.6M in total. This covers both General Fund and HRA capital expenditure. Final capital spend for the year was £133.7M. This was £3.9M less than budgeted and includes re-phasing of £9.2M into 2025/26. 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 directorate:

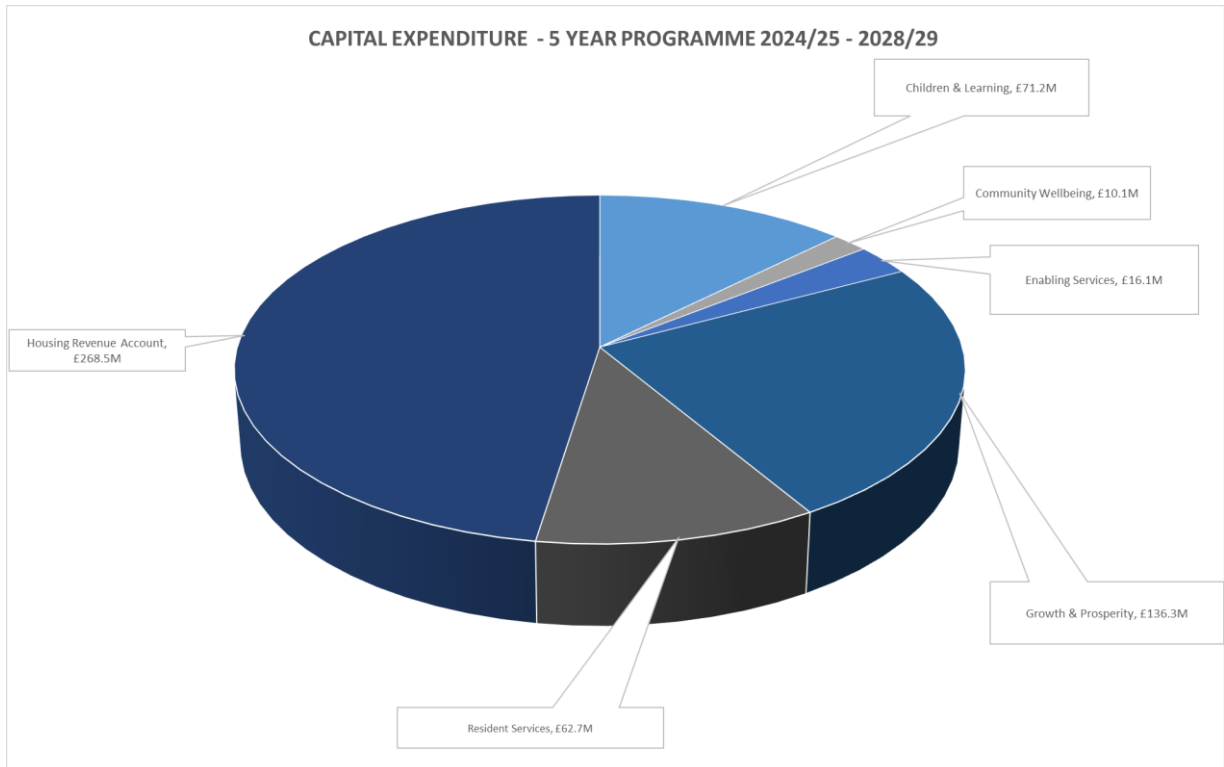
Service	2024/25 Budget £M	2024/25 Expenditure £M	Variance £M
Children & Learning	12.52	8.42	(4.10)F
Community Wellbeing	4.25	3.00	(1.26)F
Enabling Services	2.87	1.76	(1.10)F
Growth & Prosperity	42.57	71.21	28.64A
Resident Services	5.99	3.74	(2.25)F
Strategy & Performance	8.13	0.00	(8.13)F
Total General Fund	76.32	88.13	11.81A
Housing Revenue Account	61.25	45.53	(15.72)F
TOTAL CAPITAL PROGRAMME	137.58	133.66	(3.91)F

Numbers are rounded

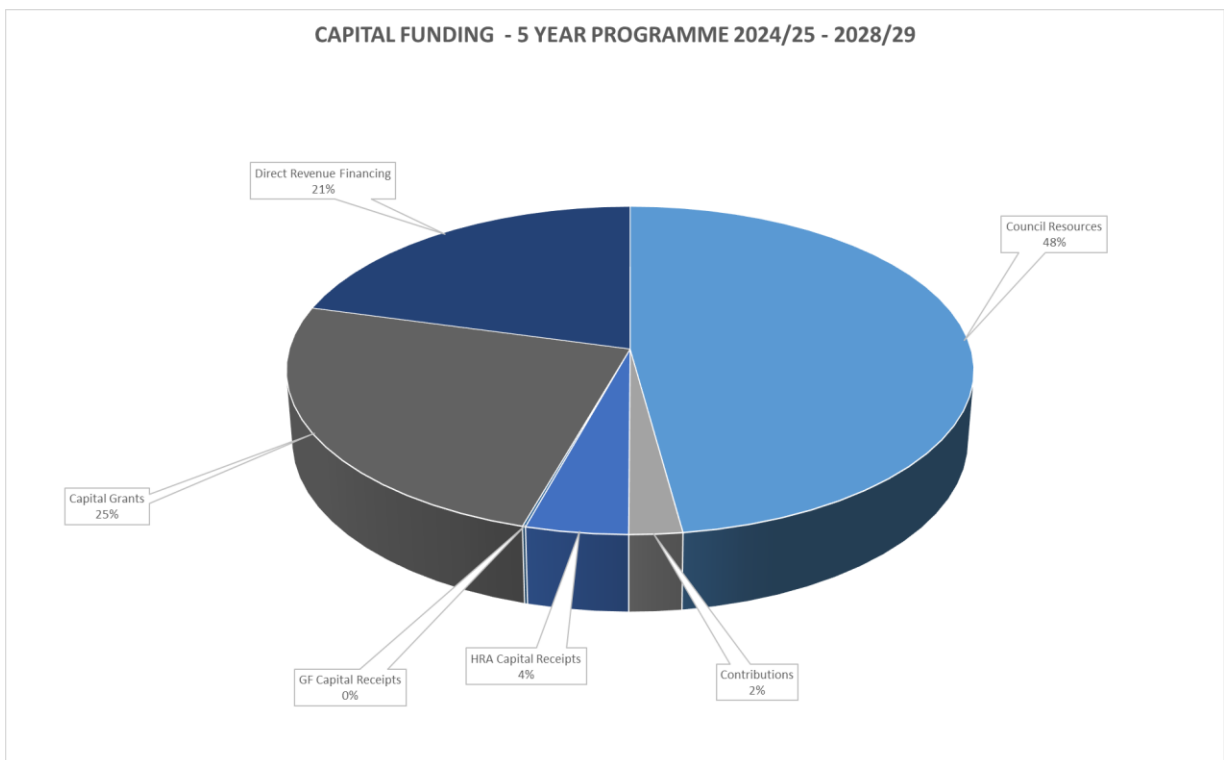
Five Year Capital Programme

The current approved five-year capital programme is £564.9M. The funding of the programmes is shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.

NARRATIVE STATEMENT



Funded by:



NARRATIVE STATEMENT

TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director Enabling Services & S151 Officer to make decisions on the management of the Council's debt and the investment of surplus funds.

The council's current strategy is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. This is because the council has an increasing projected borrowing requirement. The strategy enables a reduction in credit risk, takes pressure off the council's lending list, and avoids the cost of carrying debt existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund generated returns of 5.34% in 2024/25 against an original investment of £27M. The value of the fund has risen in 2024/25, with the capital value increasing by £0.5M (1.9%) from £24.8M at 31 March 2024 to £25.3M at 31 March 2025, however still represents a loss of £1.7M on the original investment. IFRS9 requires gains and losses from unrealised fair value movements for treasury pooled investments to be recognised in the surplus or deficit on the provision of services. However, a statutory override to IFRS9 for English authorities is in place until the end of 2028/29 (for investments in place at 1 April 2024), requiring such movements to be taken to an unusable reserve and not to be a charge to the General Fund revenue account. The council has set aside £1.2M in the Investment Risk Reserve to provide cover for a potential loss on the value of the CCLA property investment fund when the statutory override ends, with a further budgeted contribution to the reserve next year.

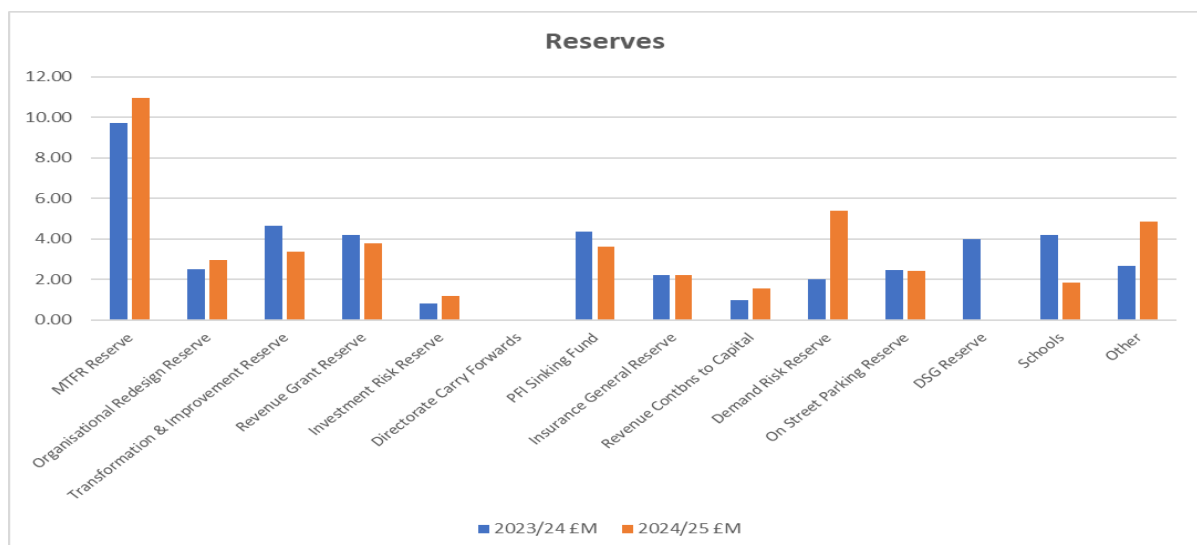
RESERVES AND BALANCES

The council maintains several useable revenue and capital reserves, as set out in the Balance Sheet.

The council holds revenue reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in funding. Reserves form a key part of the council's financial resilience strategy and maintaining its financial sustainability.

The General Fund Balance operates as a working balance and to provide a contingency against emerging events or emergencies. The level of the General Fund Balance was reconsidered as part of the budget setting process for 2024/25 and has been increased by £1.9M to £12.0M as at 31 March 2025.

The council's General Fund earmarked revenue reserves reduced by £0.5M from £44.8M at 31 March 2024 to £44.3M at 31 March 2025, with reductions in schools' balances and the Dedicated Schools Grant reserve being largely offset by increases in other reserves. The council's policy is to rebuild General Fund reserves to provide cover for risks and improve financial resilience. The graph below highlights the changes in the value of reserves over that period.



NARRATIVE STATEMENT

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part of the council's overall governance arrangements. It provides the framework for managing risk in a systematic, consistent, and efficient way. The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

Risk Management Policy - This provides an overview of the framework, arrangements and responsibilities for managing risk within and across the council and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council intranet, is subject to annual review and update as necessary.

Strategic Risk Register - The Strategic Risk Register is a key document in terms of identifying, assessing, and managing the council's key strategic risks. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. They reflect a combination of organisational 'resilience' and 'governance' type risks together with risks that are more transient in nature. The Strategic Risk Register is updated and reviewed on a quarterly basis by the council's 'Management Board' (the Chief Executive and Executive Directors) who also consider any new or emerging risks.

Directorate Risk Registers – Directorate Risk Registers recognise that, in addition to the council's Strategic Risks, there will be other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. Such risks, although significant in themselves, may not however be considered as cross-cutting or be of such significance that they are considered a 'strategic risk' that requires Management Board oversight. The risks that appear in a Directorate Risk Register will typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Project and Programme Risk Management - The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

Decision Taking: Corporate Report Template - The council's standard corporate report template includes a 'Risk Management Implications' section. This section requires a report author to highlight any significant risks associated with the decision and provide the decision maker with assurance the appropriate actions/controls are in place to mitigate the risk. It should also mention what consultation has been carried out in preparation (both internal and external) and report on any responses received and an analysis (both positive and negative) of those reports.

Business Planning - The council undertakes an annual business planning and budgeting process with all Service Business Plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. Significant risks that may threaten or adversely impact delivery of their key priorities and outcomes would be expected to be considered for inclusion in the Directorate Risk Register.

Partnerships - All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty Living Places) and other major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'. There is also guidance published internally on the council's intranet site in respect of managing risk in respect of non-commercial partnership working.

NARRATIVE STATEMENT

4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the council for the year and its financial position as at the 31 March 2025. It details 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 Statement of Accounts	21
This statement shows the responsibilities of the council and the Chief Financial Officer.	
Expenditure and Funding Analysis (Not a Core Financial Statement)	22
The purpose of this note 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 services. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
Comprehensive Income and Expenditure Statement (CIES)	23
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.	
Movement in Reserves Statement (MiRS)	24
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.	
Balance Sheet	25
The Balance Sheet shows the value as at the 31 March 2025 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.	

NARRATIVE STATEMENT

Cash Flow Statement

26

This statement shows the reasons for changes in the council's cash balances in year. Cash flows are classified as:

- Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services
- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

Notes to the Core Financial Statements (including Accounting Policies) 27 – 106

Housing Revenue Account (HRA) 107 - 111

This account summarises the transactions relating to the provision, maintenance and sale of council houses and flats.

Collection Fund 112 - 114

This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.

Glossary 115 - 119

Annual Governance Statement 120 - 138

Auditor's Report and Certificate 139

5. ISSUES AND DEVELOPMENTS

ACCOUNTING ISSUES AND DEVELOPMENTS

There has been one significant change to the Code of Practice on Local Authority Accounting ('the Code') for 2024/25, with mandatory implementation of International Financial Reporting Standard (IFRS) 16 Leases. Under the new standard, where the council leases in assets it is required to recognise the assets on the balance sheet, unless low value exemption applies or the lease is for less than 12 months. Note 31 Leases provides information on the transition to the new standard.

The council participates in the Local Government Pension Scheme. This is a funded defined benefit pension scheme, meaning the Council and its employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets. The council's contribution rate is determined by the scheme actuary on a triennial basis, with the next valuation due to be completed as at 31 March 2025. The Code sets out the basis for measuring the council's net pension liability or asset for the purposes of the accounts and this is different to the basis for determining employer contribution rates. The amount of surplus that the council can recognise in its accounts is restricted by an 'asset ceiling'. As at 31 March 2025 the council had a net surplus of £161.6M for funded pension benefits, however application of the asset ceiling reduced this to zero. The asset ceiling does not apply to unfunded defined benefits for early retirements for which the council's liability as at 31 March 2025 is £22.4M. Further details are provided in Note 34 Defined Benefit Pension Schemes.

OTHER ISSUES AND DEVELOPMENTS

Transformation Programme

To address the range of challenges that the council faces we are delivering change across the organisation through a single transformation programme called adapt | grow | thrive. The programme is addressing what we do, how we do it, and what technology, process and structural changes are needed to enable us

NARRATIVE STATEMENT

to reshape the council to deliver for our residents, businesses and visitors. The content and delivery of the programme is organised within seven portfolios, containing a total of 28 programmes of activities. In September 2024 Newton Europe were appointed as our transformation implementation partner to help deliver the scale and pace of change required. Phase 1 of the programme has identified around £50M of financial savings opportunities over the medium term.

Reshaping Financial Management

Following the Chartered Institute of Public Finance and Accountancy (CIPFA) review of the council's resilience and financial management in 2023, progress has been made in implementing CIPFA's recommendations, in both stabilising the council's financial position and improving financial management. Further work is planned on improving financial management across the organisation and within the finance function. This is being delivered through the Reshaping Financial Management programme, which forms part of the transformation programme.

Asset Development and Disposal Programme

The [Asset Development and Disposal Programme \(ADDP\)](#) is one of the 28 transformation programmes to deliver a sustainable council. It is changing how the council is doing things in terms of process, consideration of risk and overall culture as well as a proactive delivery approach.

The programme aims to support the council's growth agenda, alongside realising capital receipts to support the financial position of the council. The programme is focused on driving Southampton's growth through the retention, development or disposal of the council's corporate, operational and investment property portfolio. During 2024/25 the programme delivered £15.8M of capital receipts from the disposal of 7 assets (a combination of industrial or warehouse, commercial, retail or vacant units).

Integrated Highways and Transport Capital Programme

Work progressed during the year on the council's Integrated Transport & Highways Capital Programme for 2024/25, including £12.8M of improvements via the Transforming Cities Fund project, £4.7M of works as part of the Highways Roads Programme covering carriageway resurfacing, footway & kerbing reconstruction, and footway surfacing, and £5.9M through the Future Transport Zone programme.

Devolution and Local Government Reorganisation

In December 2024 the government published the English Devolution White Paper. The paper addressed two separate but related programmes of activity – the establishment of devolved strategic authorities and the abolition of a two-tier system of local government through a programme of local government reorganisation (LGR). In early February 2025 councils in the Hampshire and the Solent area received confirmation of being on the government's fast-track programme to establish a Mayoral Combined Authority for the region. The government has consulted the public on proposals to set up the new authority in early next year, with Mayoral elections in May 2026. The outcome of the consultation is awaited. Alongside this the councils in the area have worked together to develop an interim plan for LGR, which was submitted to the government in March 2025. This sets out the guiding principles the councils have agreed should inform the next stage of the process. Full proposals are to be submitted to the government by Autumn 2025.

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 the 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 2025 and of its income and expenditure for the year ended 31 March 2025.

Signed **M Creighton** _____ Date
Section 151 Officer

4. Approval of the Accounts

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

Signed **S Leggett** _____ Date
Chair, Audit Committee

THE FINANCIAL STATEMENTS

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) 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 council's 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 48. Note 5 contains an explanation of the restatement for 2023/24.

<u>2023/24 Restated</u>				<u>2024/25</u>		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
52,841	3,541	56,382	Children & Learning	48,018	3,478	51,496
79,473	(2,533)	76,940	Community Wellbeing	73,472	(3,715)	69,757
26,737	1,750	28,487	Enabling Services	26,716	945	27,661
31,793	14,068	45,861	Growth & Prosperity	33,658	12,402	46,060
23,455	338	23,793	Resident Services	25,066	8,126	33,192
3,598	(54)	3,544	Strategy & Performance	4,962	(82)	4,880
(13,390)	(5)	(13,395)	Housing Revenue Account (HRA)	(9,195)	(858)	(10,053)
0	1,615	1,615	Other Income & Expenditure	0	10,001	10,001
			Other items of expenditure and income:			
			Equal Pay	0	49,168	49,168
0	6,343	6,343	Revaluation & Impairment of General Fund Assets	0	4,242	4,242
0	155,392	155,392	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	(56,659)	(56,659)
204,507	180,455	384,962	Cost of Services	202,697	27,048	229,745
(194,832)	(3,028)	(197,860)	Other Income & Expenditure	(204,600)	(28,955)	(233,555)
9,675	177,427	187,102	(Surplus)/Deficit	(1,903)	(1,907)	(3,810)
(65,120)			Opening General Fund Balance	(54,856)		
(2,000)			Opening HRA Balance	(2,590)		
10,264			Less/Plus Deficit/(Surplus) on General Fund	(1,403)		
(590)			Less/Plus Deficit/(Surplus) on HRA	(500)		
(54,856)			Closing General Fund Balance	(56,259)		
(2,590)			Closing HRA Balance	(3,090)		
(57,446)			Closing General Fund & HRA Balance	(59,349)		

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

Note 5 contains an explanation of the restatement for 2023/24.

2023/24 Restated				2024/25			
Expenditure	Income	Net		Notes	Expenditure	Income	Net
£000	£000	£000			£000	£000	£000
269,514	(213,132)	56,382	Children & Learning		284,837	(233,341)	51,496
158,716	(81,776)	76,940	Community Wellbeing		158,576	(88,819)	69,757
96,793	(68,306)	28,487	Enabling Services		93,514	(65,853)	27,661
72,605	(26,744)	45,861	Growth & Prosperity		69,223	(23,163)	46,060
66,608	(42,815)	23,793	Resident Services		77,062	(43,870)	33,192
4,761	(1,217)	3,544	Strategy & Performance		6,036	(1,156)	4,880
75,669	(89,064)	(13,395)	Housing Revenue Account (HRA)		85,950	(96,003)	(10,053)
1,724	(109)	1,615	Other Income & Expenditure		10,053	(52)	10,001
			Other items of expenditure and income:	6			
			Equal Pay		49,168	0	49,168
6,343	0	6,343	Revaluation & Impairment of General Fund Assets		4,242	0	4,242
155,392	0	155,392	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		(56,659)	0	(56,659)
908,125	(523,163)	384,962	Cost of Services	8	782,002	(552,257)	229,745
49,862	(18,514)	31,348	Loss/ (Gain) on the disposal of Non Current Assets	6, 12c	55,988	(58,230)	(2,242)
91	0	91	Contributions to Other Local Public Bodies		93	0	93
49,953	(18,514)	31,439	Other Operating Expenditure		56,081	(58,230)	(2,149)
(11,610)	(6,841)	(18,451)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	993	(8,180)	(7,187)
18,349	0	18,349	Interest payable and similar charges	11	20,019	0	20,019
0	(2,412)	(2,412)	Interest and Investment Income	11	0	(3,074)	(3,074)
3,627	0	3,627	Net interest on the defined benefit liability (asset)	34b	1,592	0	1,592
10,366	(9,253)	1,113	Financing, and Investment Income & Expenditure		22,604	(11,254)	11,350
0	(115,233)	(115,233)	Council Tax Income		0	(120,933)	(120,933)
0	(46,796)	(46,796)	Business Rates		0	(52,819)	(52,819)
0	(39,076)	(39,076)	General Government Grants	37c	0	(40,853)	(40,853)
0	(29,307)	(29,307)	Capital Grants and Contributions	37b	0	(28,151)	(28,151)
0	(230,412)	(230,412)	Taxation and Non-Specific Grant Income		0	(242,756)	(242,756)
968,444	(781,342)	187,102	Deficit/(Surplus) on the Provision of Services		860,687	(864,497)	(3,810)
		(46,885)	Deficit/(Surplus) on revaluation of non current assets	22a			(42,424)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		(70,701)	Remeasurements of the net defined benefit liability (asset)	34b			(11,228)
		(117,586)	Other Comprehensive (Income)/Expenditure				(53,652)
		69,516	Total Comprehensive (Income)/Expenditure				(57,462)

THE FINANCIAL STATEMENTS

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 2024	(10,066)	(44,790)	(2,590)	0	(34,338)	0	(35,731)	(127,515)	(1,213,584)	(1,341,099)
Movement in Reserves during 2024/25										
Total Comprehensive Income and Expenditure	49,743		(53,553)					(3,810)	(53,652)	(57,462)
Adjustments between accounting basis and funding basis under regulations (note 10)	(51,146)		53,053		(4,530)		795	(1,828)	1,828	0
Transfers to / (from) earmarked reserves (note 9)	(531)	531						0		0
(Increase) / Decrease in Year	(1,934)	531	(500)	0	(4,530)	0	795	(5,638)	(51,824)	(57,462)
Balance at 31 March 2025	(12,000)	(44,259)	(3,090)	0	(38,868)	0	(34,936)	(133,153)	(1,265,408)	(1,398,561)

	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 2023	(10,066)	(55,054)	(2,000)	0	(19,805)	0	(34,949)	(121,874)	(1,288,741)	(1,410,615)
Movement in Reserves during 2023/24										
Total Comprehensive Income and Expenditure	46,294		140,808					187,102	(117,586)	69,516
Adjustments between accounting basis and funding basis under regulations (note 10)	(36,030)		(141,398)		(14,533)		(782)	(192,743)	192,743	0
Transfers to / (from) earmarked reserves (note 9)	(10,264)	10,264						0		0
(Increase) / Decrease in Year	0	10,264	(590)	0	(14,533)	0	(782)	(5,641)	75,157	69,516
Balance at 31 March 2024	(10,066)	(44,790)	(2,590)	0	(34,338)	0	(35,731)	(127,515)	(1,213,584)	(1,341,099)

THE FINANCIAL STATEMENTS

Balance Sheet

31 March 2024		31 March 2025	
	£000	Notes	£000
1,460,183	Property, Plant & Equipment	12	1,472,123
192,883	Heritage Assets	13	194,285
	Right of Use Assets	31 & 32	117,985
123,676	Investment Properties	14	112,562
7,723	Intangible Assets	15	4,773
25,819	Long Term Investments	17b	25,292
3,130	Long Term Debtors	18	2,932
1,813,414	Non Current Assets		1,929,952
367	Short Term Investments	17b	1,355
0	Assets held for Sale	16	0
782	Stock (Inventories)		980
53,453	Short Term Debtors	18	59,736
7,969	Cash & Cash Equivalents	19	35,624
62,571	Current Assets		97,695
(2,997)	Cash & Cash Equivalents	19	(1,976)
(364)	Deferred Liabilities	38	(364)
(36,830)	Short Term Borrowing	17b	(21,288)
(92,310)	Short Term Creditors	20	(104,657)
(4,855)	Provisions	21	(53,141)
(137,356)	Current Liabilities		(181,426)
(37,142)	Long Term Creditors	17b	(45,199)
(3,805)	Provisions	21	(4,093)
(277,997)	Long Term Borrowing	17b	(338,997)
	Other Long Term Liabilities		
(12,007)	- Deferred Liabilities	38	(11,643)
(32,924)	- Cap. Grants & Conds Receipts in Advance	37a	(25,346)
(33,655)	- Pension Fund Liability	34c	(22,382)
(397,530)	Long Term Liabilities		(447,660)
1,341,099	Net Assets		1,398,561
	Useable Reserves		
(34,338)	Useable Capital Receipts Reserve	10	(38,868)
(35,731)	Cap. Grants & Conds Unapplied	10	(34,936)
(44,790)	Earmarked Revenue Reserves	9	(44,259)
(10,066)	General Fund Balance	10	(12,000)
(2,590)	Housing Revenue Account Balance	10	(3,090)
(127,515)			(133,153)
	Unuseable Reserves		
(472,341)	Revaluation Reserve	22a	(501,321)
2,206	Pooled Fund Adjustment Account	22g	1,728
(787,871)	Capital Adjustment Account	22b	(808,057)
33,655	Pension Reserve	22c	22,382
(3,085)	Collection Fund Adjustment Account	22d	(2,047)
2,760	Accumulated Absences Account	22e	4,867
11,092	Dedicated Schools Grant Adjustment Account	22f	17,040
(1,213,584)			(1,265,408)
(1,341,099)	Total Reserves		(1,398,561)

THE FINANCIAL STATEMENTS

Cash Flow Statement

<u>2023/24</u>			<u>2024/25</u>
£000		Notes	£000
(187,102)	Net surplus or (deficit) on the provision of services		3,810
262,307	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	118,818
<u>(65,577)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	<u>(100,186)</u>
9,628	Net Cash Flows From Operating Activities		22,442
(7,098)	Net Cash flows from Investing Activities	23 c)	(29,158)
(9,388)	Net Cash flows from Financing Activities	23 d)	<u>35,392</u>
(6,858)	Net Increase / (Decrease) in Cash and Cash Equivalents		28,676
11,830	Cash and cash equivalents at the beginning of the reporting period	23 e)	4,972
<u>4,972</u>	Cash and Cash Equivalents at the End of the Reporting Period	23 e)	<u>33,648</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

This Statement of Accounts summarises the Council's transactions for the 2024/25 financial year and its year end position as at 31 March 2025. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended). These Regulations require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the Code), supported by International Financial Reporting Standards (IFRS).

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.

The accounts are prepared on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council has undertaken cashflow forecasting up to the end of June 2026. The projections for the revenue budget show that the Council has sufficient liquidity over this period. There is no identified need for borrowing to manage the working capital for revenue balances, other than possible temporary borrowing to manage fluctuations in cash flow. The Council does have a significant capital programme for the same period and there was always an intent to borrow, either from the Public Works Loans Board (PWLB) or other sources, to fund this programme. The timing and extent of the capital programme is under regular review. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt and has significant headroom between its forecast gross debt and its capital financing requirement.

In making its going concern assessment, the Council must also consider its budgets and the level of reserves.

The Council assesses its financial position for future years through the medium-term financial planning process. A balanced budget for 2025/26 was set in February 2025 and the MTFS forecast a balanced position for 2026/27, reliant on the delivery of savings through the adapt | grow | thrive transformation programme. Revenue reserves (excluding schools' balances) are forecast to be £42.9M at the end of 2025/26. Whilst some progress has been made in rebuilding reserves, the level of reserves is still considered low compared with the Council's risks. However, the Government has agreed that the Council can carry forward unused Exceptional Financial Support from 2024/25 into 2025/26 which provides some additional cover for financial pressures.

Given that the Council has sufficient liquidity over the specified period and a forecast balanced MTFS, it is of the view that it can continue to operate planned operational services for the period of 12 months to the end of June 2026.

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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- 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

NOTES TO THE CORE FINANCIAL STATEMENTS

- 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

NOTES TO THE CORE FINANCIAL STATEMENTS

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) Dedicated Schools Grant Deficit

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 require particular accounting practices in relation to the treatment of local authorities' schools budget deficits. Where a local authority has a deficit on its schools budget relating to its accounts for financial years 2020/21 through to 2027/28 it must not charge the amount of that deficit to a revenue account. Instead, the deficit is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

h) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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 and other staff 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.

Termination Benefits

Termination benefits are amounts payable because 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:

NOTES TO THE CORE FINANCIAL STATEMENTS

- 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:
 - Quoted securities – Current bid price.
 - Unquoted securities – Professional estimate.
 - Unitised securities – Current bid price.
 - Property – Market value.
- Where there is a net defined benefit asset it is measured at the lower of:
 - The surplus in the defined benefit plan, and
 - The asset ceiling.

The change in the net pensions' liability (asset) 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

NOTES TO THE CORE FINANCIAL STATEMENTS

- *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.

i) 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.

j) 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.

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 financial assets held by the Council, 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.

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.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

k) 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

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

I) 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:
 - The Bargate; and
 - 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.

m) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council

NOTES TO THE CORE FINANCIAL STATEMENTS

as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost and carried at cost less accumulated depreciation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

n) 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.

o) 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.

p) Leases

The Council as Lessee

The Council classifies contracts as leases based on their substance. Contracts are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

Initial Measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date 1 April 2024, if later). The leases are typically for fixed periods in excess of one year but may have extension options. The Council initially

NOTES TO THE CORE FINANCIAL STATEMENTS

recognises lease liabilities measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate (based on the PWLB annuity rate) wherever the interest rate implicit in the lease cannot be determined.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent Measurement

The right-of-use asset is subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for assets held under non-commercial leases and longer leases without provision for regular updates for market conditions. For these leases, the asset is carried at a revalued amount.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method.

The liability is remeasured for any reassessment or lease modifications or revised in-substance fixed lease payments. When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the Comprehensive Income and Expenditure Statement.

Low value and short lease exemption

As permitted by the Code, the authority excludes leases:

- for low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and
- with a term shorter than 12 months

Lease expenditure

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

The Council as Lessor

Leases are classified as finance leases where the terms of the lease transfer substantially 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.

- Finance Leases – the Council does not have any material finance leases where it is the lessor.
- 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

q) 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.

r) 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.

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

- Community Assets – Depreciated historical cost.
- Highways Infrastructure Assets – generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which were deemed at that time to be 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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Assets –
 - Straight-line allocation up to 40 years on historical assets
 - Straight-line allocation over the following useful economic lives, for additions.

Asset	Estimated Useful Asset Life (Years)
Carriageways	30
Footways and cycle tracks	30
Structures (bridges, tunnels and underpasses)	120
Street lighting	50

NOTES TO THE CORE FINANCIAL STATEMENTS

Street furniture	30
Traffic management systems	25
Parks & Open Space Infrastructure	30
Coastal Infrastructure	50

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Infrastructure 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 (with modified rules in place since 2022/23). The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or to meet revenue expenditure that has been capitalised in accordance with regulations or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of 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.

s) 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 Right of Use Assets.

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. The latter is accounted for as a lease.

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 the following elements:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

- *Finance Cost* – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- *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 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.

Where there is a change in future payments resulting from a change in an index or a rate used to determine the payments for the capital investment, the liability is remeasured to reflect those revised payments over the remainder of the contract term.

t) 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.

u) 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

NOTES TO THE CORE FINANCIAL STATEMENTS

instruments, retirements and employee benefits, and the deficit on the Dedicated Schools Grant and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

v) 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.

REFCUS includes revenue expenditure that has been capitalised under a capitalisation direction using Exceptional Financial Support (EFS). As a material item within the financial statements, the transfer in the MiRS from the General Fund Balance to the CAA in respect of EFS has been shown separately as 'capitalisation direction' in Note 10 Adjustments between accounting basis and funding basis under Regulations.

w) Schools

The Code 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.

x) 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.

y) 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:

NOTES TO THE CORE FINANCIAL STATEMENTS

- 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.

z) 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 2025/26 Code. New or amended standards that are expected to be introduced in the 2025/26 Code that apply from 1 April 2025 are:

- Changes to the measurement of non-investment assets, with adaptations and interpretations of IAS16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The changes are intended to enable a more proportionate approach to the accounting requirements for non-investment assets. These include setting out three revaluation processes for operational property, plant and equipment, requiring indexation for tangible non-investment assets and a requirement to value intangible assets using the historical cost approach. These changes have the same effect as requiring a change in accounting policy due to an amendment to standards, which would normally require retrospective restatement. However, the adaptations also include the requirement for changes to the valuation of non-investment assets to be applied prospectively, with no restatement of prior year figures, supported by clear disclosure throughout the transition.

These changes may have a material impact on the Council's financial statements.

Other amended standards that apply from 1 April 2025 that have a minor impact on the Code are:

- Amendments to IAS21 *The Effects of Changes in Foreign Exchange Rate (Lack of Exchangeability)* – clarify how an authority should assess whether a currency is exchangeable and, when it is not, how to determine the exchange rate to use and the disclosures to provide.
- IFRS17 *Insurance Contracts* – this standard replaces IFRS 4 and sets out principles for recognition, measurement, presentation and disclosure of insurance contracts.

Neither of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

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.

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

- **Local Government Funding, Devolution and Local Government Reorganisation** – There is a high degree of uncertainty about future levels of government funding for the Council beyond 2025/26, as the government plans to reform the local government finance system for 2026/27 and introduce multi-year settlements. Southampton City Council, alongside Hampshire County Council, Portsmouth City Council and the Isle of Wight Council, has been accepted on the government's priority programme for devolution. This and potential local government reorganisation are likely to have an impact on the Council's finances. However, the Council has determined that this uncertainty is not sufficient to

NOTES TO THE CORE FINANCIAL STATEMENTS

provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. Details of the carrying value of Property, Plant and Equipment are provided in Note 12.

- **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 is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used. Details of the fair value of Investment Property are provided in Note 14.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools 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:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- 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 and are included within Other Land and Buildings as part of Property, Plant and Equipment.

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 once transfer agreements have been completed.

The table below illustrates the number and type of schools:

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Status as at 31 March 2025	Infant	Junior	Primary	Secondary	Other	Total
Academies	8	5	12	6	2	33
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			2		1	3
Community Schools			5		4	9
Foundation Trust	2	3	13	5	2	25
Free Schools			1			1
Grand Total	10	8	36	12	9	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 of the legal property transfer to the Academy, rather than as an impairment on the date of transfer to Academy status. 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 and Equipment), and on the date the asset transfers to an Academy the Council accounts for a disposal for nil consideration.
- Highways Infrastructure Assets** - The Council has elected to take up a statutory override relating to the accounting for highways infrastructure assets. This provides that for all statements of accounts that are currently open (up to 2028/29), authorities are not required to report gross book value and accumulated depreciation for infrastructure assets, because the information is unlikely to faithfully represent the asset position to the users of the financial statements. In accordance with the temporary relief offered by the changes to the Code on accounting for infrastructure assets, Note 12(e) does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
- 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. Details of the carrying value of heritage assets that are recognised on the Balance Sheet are provided in Note 13.
- Leases** – The Council has made judgements where it is acting as lessor 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. Where the Council is acting as lessor none of the lease arrangements are considered to be finance leases. The Council has also made judgements on whether it is acting as a lessee and required to recognise right of use assets on its Balance Sheet. Note 31 provides further details on leases.
- 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). None of the Council's contractual arrangements are considered to meet the tests of a lease.
- 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 – see Note 32 PFI and Similar Contracts for further details.
- Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss. Note 17 provides details of the fair value of the fund.

NOTES TO THE CORE FINANCIAL STATEMENTS

- **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 likelihood of such liabilities or whether a reliable estimate can be made. Note 21 provides further details on provisions and Note 35 for contingent liabilities.
- **Pension Plan Asset Ceiling** – The Council has made judgements about whether an asset ceiling applies to the recognition of a net surplus for the funded defined benefits pension plan and the value of the asset ceiling. Further details are provided in Note 34 Defined Benefit Pension Schemes.
- **Government Grants** – the Council has made judgements about whether government grants are ringfenced or unringfenced based on the conditions attached to the grant. Ringfenced grants are credited to service revenue accounts within the Comprehensive Income and Expenditure Statement (CIES), whereas unringfenced grants are recognised within taxation and non-specific grant income and expenditure within the CIES. Further details of grants received are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

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

The preparation of financial statements requires management to make 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 items for which there is a significant risk of material adjustment in the next financial year are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment (PPE)	<p>The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1.12Bn of assets were valued at current value in 2024/25.</p> <p>Property values will vary according to market conditions or, where valued on a depreciated replacement cost basis, land values, construction costs, lifespans and remaining useful economic life will be key variables.</p> <p>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 pressures on the Council's budget 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.</p>	<p>A 1% change to the PPE valuations made for the year would change the reported value of PPE by £11.2M.</p> <p>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 £1.79M if the useful lives were reduced by one year.</p>
Investment Property	<p>The Council values its Investment Property (IP) annually and the fair value at 31 March 2025 was £112.6M.</p>	<p>A 1% change to the IP valuations would change the reported value of IP by £1.1M.</p>

NOTES TO THE CORE FINANCIAL STATEMENTS

	<p>Key assumptions in the valuation of investment property include cash flows, market rents and yield.</p> <p>It is uncertain what impact market conditions will have on property values and there is a risk of material changes during the next year.</p>	
Provisions	<p>The authority has made a provision of £49.2M for the settlement of equal pay claims, based on an estimate of eligible claims.</p> <p>Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals/challenges against business rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2025, the Council's share of which is £5.6M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the checks and challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.</p>	<p>An increase or reduction of the equal pay provision estimate of 10% would increase/(reduce) the provision by £4.9M.</p> <p>An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the Council's share of the NDR appeals provision by £0.6M.</p>
Pensions Liability/ (Asset)	<p>Estimation of the net liability to pay pensions/net pensions asset 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, expected returns on pension fund assets and the impact of an asset ceiling on the recognition of any surplus. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2025 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
Effect of changing defined benefit obligation assumptions		
Approximate increase to defined benefit obligation	%	£000
0.1% decrease in Real Discount Rate	2%	17,450
1 year increase in member life expectancy	4%	42,412
0.1% increase in the Salary Increase Rate	0%	407
0.1% increase in the Pension Increase Rate (CPI)	2%	17,538

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the directorate structure in place during

NOTES TO THE CORE FINANCIAL STATEMENTS

2024/25. Prior year comparatives have been updated to reflect the revised directorate structure. In the EFA the £9.675M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £177.427M deficit for Adjustments between the Funding and Accounting Basis and £187.102M deficit for Net Expenditure in the CIES have not changed as a result of the 2023/24 restatement. In the CIES the £908.125M Expenditure, £523.163M Income and £384.962M for Cost of Services have not changed as a result of the 2023/24 restatement.

No other prior period adjustments have been made.

6. Material Items of Expenditure and Income

Equal Pay

The Council has made a provision of £49.2M for the settlement of equal pay claims, based on an estimate of eligible claims. This item relates to all Council services and has been disclosed separately within the Comprehensive Income and Expenditure Statement (CIES) for transparency.

Revaluation and Impairment of Property Plant and Equipment

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

Capitalisation of Revenue Expenditure

The Council has capitalised £56.6M of revenue expenditure in 2024/25 using a capitalisation direction provided by the Government through its Exceptional Financial Support scheme. This includes expenditure on making the equal pay provision noted above (excluding the element relating to schools' employees which has been charged against the Dedicated Schools Grant) and other revenue expenditure incurred in year, including the costs of the transformation programme. The capitalisation is included as an adjustment between accounting basis and funding basis in the Movement in Reserves Statement.

7. Events after the Reporting Period

The draft statement of accounts was authorised for issue by the Section 151 Officer on the 27 June 2025. 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 2025, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

The Cost of Services has 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 and lease principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure** – adjustments for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.

NOTES TO THE CORE FINANCIAL STATEMENTS

- **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/(asset) 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, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves, remove capitalisation direction credits and transfer costs between services and from Other Income and Expenditure.
- **For financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2024/25

Adjustments from General Fund and HRA 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
Children & Learning	7,091	(330)	(3,283)	3,478
Community Wellbeing	119	(223)	(3,611)	(3,715)
Enabling Services	1,185	(229)	(11)	945
Growth & Prosperity	7,618	(188)	4,972	12,402
Resident Services	11,698	(260)	(3,312)	8,126
Strategy & Performance	0	(67)	(15)	(82)
Housing Revenue Account (HRA)	0	(340)	(518)	(858)
Other Income & Expenditure	0	0	10,001	10,001
Other items of expenditure and income:				
Equal Pay	0	0	49,168	49,168
Revaluation & Impairment of General Fund Assets	4,242	0	0	4,242
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(56,659)	0	0	(56,659)
Cost of Services	(24,706)	(1,637)	53,391	27,048
Other Income and Expenditure from the Expenditure and Funding Analysis	(42,405)	1,592	11,858	(28,955)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(67,111)	(45)	65,249	(1,907)

Adjustments between Funding and Accounting Basis 2023/24 Restated

Adjustments from General Fund and HRA 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
Children & Learning	9,211	547	(6,217)	3,541
Community Wellbeing	150	402	(3,085)	(2,533)
Enabling Services	2,890	383	(1,523)	1,750
Growth & Prosperity	10,888	300	2,880	14,068
Resident Services	7,687	432	(7,781)	338
Strategy & Performance	0	98	(152)	(54)
Housing Revenue Account (HRA)	0	513	(518)	(5)
Other Income & Expenditure	0	0	1,615	1,615
Other items of expenditure and income:				
Revaluation & Impairment of General Fund Assets	6,343	0	0	6,343
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	155,392	0	0	155,392
Cost of Services	192,561	2,675	(14,781)	180,455
Other Income and Expenditure from the Expenditure and Funding Analysis	(25,248)	3,627	18,593	(3,028)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	167,313	6,302	3,812	177,427

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Analysis of income and expenditure by nature

2023/24 £000	Analysis of income and expenditure by nature	2024/25 £000
	Income	
(137,212)	Revenue from contracts with service recipients	(145,498)
(439,924)	Government grants and contributions	(463,625)
(14,410)	Other service income	(12,138)
(6,841)	Income in relation to investment properties	(8,180)
(2,412)	Interest and investment income	(3,074)
(162,029)	Income from council tax and non-domestic rates	(173,752)
(18,514)	Proceeds from the disposal of non-current assets	(58,230)
(781,342)	Total Income	(864,497)
	Expenditure	
302,416	Employee benefits expenses	360,525
392,128	Other service expenses	417,299
202,062	Depreciation, amortisation, impairments and revaluations	5,264
18,349	Interest payable and similar charges	20,019
3,627	Net interest expense on the pension defined liability	1,592
49,862	Costs from the disposal of non-current assets	55,988
968,444	Total Expenditure	860,687
187,102	(Surplus) or Deficit on the Provision of Services	(3,810)

c) Analysis of service income

Analysis of Service Income 2024/25	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(230,863)	(2,113)	(365)	(233,341)
Community Wellbeing	(72,476)	(16,343)	0	(88,819)
Enabling Services	(64,657)	(1,196)	0	(65,853)
Growth & Prosperity	(15,306)	(6,994)	(863)	(23,163)
Resident Services	(10,695)	(24,359)	(8,816)	(43,870)
Strategy & Performance	(624)	(532)	0	(1,156)
Housing Revenue Account (HRA)	0	(93,909)	(2,094)	(96,003)
Other Income & Expenditure	0	(52)	0	(52)
	(394,621)	(145,498)	(12,138)	(552,257)

NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2023/24 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(210,624)	(2,116)	(392)	(213,132)
Community Wellbeing	(67,916)	(13,860)	0	(81,776)
Enabling Services	(66,000)	(2,306)	0	(68,306)
Growth & Prosperity	(17,406)	(7,034)	(2,304)	(26,744)
Resident Services	(8,898)	(24,425)	(9,492)	(42,815)
Strategy & Performance	(697)	(520)	0	(1,217)
Housing Revenue Account (HRA)	0	(86,842)	(2,222)	(89,064)
Other Income & Expenditure	0	(109)	0	(109)
	(371,541)	(137,212)	(14,410)	(523,163)

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.

	<u>Balance</u> <u>31 March</u> <u>2024</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2024/25</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2024/25</u>	<u>Balance</u> <u>31 March</u> <u>2025</u>
	£000	£000	£000	£000
<u>Earmarked Reserves</u>				
<u>General Fund</u>				
Medium Term Financial Risk Reserve	(9,720)	(1,257)		(10,977)
Organisational Redesign Reserve	(2,500)	(475)		(2,975)
Transformation & Improvement Reserve	(4,663)		1,279	(3,384)
Revenue Grant Reserve - General	(4,206)		404	(3,802)
Investment Risk Reserve	(800)	(400)		(1,200)
Directorate Carry Forwards Reserve	0			0
PFI Sinking Fund	(4,345)		734	(3,611)
Insurance Reserve	(2,198)			(2,198)
On Street Parking	(2,480)		43	(2,437)
DSG Reserve	(3,987)		3,987	0
General Fund Contributions to Capital	(1,000)	(568)		(1,568)
Social Care Demand Risk Reserve	(2,000)	(3,409)		(5,409)
Other Reserves	(2,685)	(2,183)		(4,868)
	(40,584)	(8,292)	6,447	(42,429)
<u>Schools</u>				
School Balances	(4,206)		2,376	(1,830)
	(44,790)	(8,292)	8,823	(44,259)

NOTES TO THE CORE FINANCIAL STATEMENTS

The purposes of the main reserves are noted below:

Medium Term Financial Risk Reserve

As part of the Council's Medium Term Financial Strategy (MTFS) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the local government funding system, volatility of local taxation, demand pressures and the potential for planned savings to be delayed.

Organisational Redesign Reserve

The reserve holds monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes.

Transformation & Improvement Reserve

Monies set aside to fund the Transformation Programme and other improvement projects.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years.

Investment Risk Reserve

The reserve holds monies to provide for a potential loss on the valuation of the Council's pooled property fund investment when the statutory override on charging valuation reductions (or increases) to the General Fund ends.

Directorate Carry Forward Reserve

This reserve holds budget underspends carried forward for specific purposes as agreed by Council.

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.

Insurance Reserve

This reserve holds 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.

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.

DSG Reserve

This reserve held surpluses on the Dedicated Schools Grant generated in 2022/23 and 2023/24. The cumulative deficit on the Dedicated Schools Grant is held separately in the Dedicated Schools Grant Adjustment Account (an unusable reserve) in accordance with legislation. See further details in Note 22 Unusable Reserves.

General Fund Contributions to Capital

This reserve holds monies to finance the capital programme.

Social Care Demand Risk Reserve

The reserve holds monies to mitigate the risks of demand pressures within both Children's and Adults Social Care, such as rising client numbers or winter pressures.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

2024/25	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	(4,319)							(4,319)	4,319	0
Depreciation and revaluation of Non Current Assets	(36,420)		35,842					(578)	578	0
Movement on Market Value of Investment Properties	289		(656)					(367)	367	0
Capital Grants and Contributions Applied	40,859		1,652					42,511	(42,511)	0
Capital Grants and Contributions Unapplied	(795)						795	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(13,608)							(13,608)	13,608	0
Holiday pay transferred to the Accumulated Absences Account	(2,107)							(2,107)	2,107	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	478							478	(478)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(21,407)		(5,623)					(27,030)	27,030	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	21,443		5,632					27,075	(27,075)	0
Capitalisation Direction	(49,709)		(6,925)					(56,634)	56,634	0
Statutory Provision for the Financing of Capital Investment	16,570		0					16,570	(16,570)	0
Capital Receipts used for the Repayment of Loans					7,492			7,492	(7,492)	0
Capital expenditure charged in-year to the GF and HRA Balances	4,128		511					4,639	(4,639)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	(1,038)							(1,038)	1,038	0
Transfers to/(from) Major Repairs Reserves			20,817			(20,817)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						20,817		20,817	(20,817)	0
Capital Receipts in Year	54,840		3,390		(58,230)			0	0	0
Non-current Asset Disposals	(54,402)		(1,587)					(55,989)	55,989	0
Capital Receipts Financing of New Capital Expenditure					46,405			46,405	(46,405)	0
Adjustment for repayment/write-off of loans	0				(197)			(197)	197	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(5,948)							(5,948)	5,948	0
	(51,146)	0	53,053	0	(4,530)	0	795	(1,828)	1,828	0

NOTES TO THE CORE FINANCIAL STATEMENTS

2023/24	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	(3,673)							(3,673)	3,673	0
Depreciation and revaluation of Non Current Assets	(37,196)		(173,359)					(210,555)	210,555	0
Movement on Market Value of Investment Properties	9,953		2,212					12,165	(12,165)	0
Capital Grants and Contributions Applied	43,123		2,894					46,017	(46,017)	0
Capital Grants and Contributions Unapplied	782						(782)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(18,953)							(18,953)	18,953	0
Holiday pay transferred to the Accumulated Absences Account	(178)							(178)	178	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(1,007)							(1,007)	1,007	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(28,527)		(6,769)					(35,296)	35,296	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	23,434		5,560					28,994	(28,994)	0
Statutory Provision for the Financing of Capital Investment	12,345		0					12,345	(12,345)	0
Capital expenditure charged in-year to the GF and HRA Balances	2,000		6,001					8,001	(8,001)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	(2,627)							(2,627)	2,627	0
Transfers to/(from) Major Repairs Reserve			17,967			(17,967)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						17,967		17,967	(17,967)	0
Capital Receipts in Year	12,813		5,702		(18,515)			0	0	0
Non-current Asset Disposals	(48,256)		(1,606)					(49,862)	49,862	0
Capital Receipts Financing of New Capital Expenditure					4,204			4,204	(4,204)	0
Adjustment for repayment/write-off of loans	(63)				(222)			(285)	285	0
	(36,030)	0	(141,398)	0	(14,533)	0	(782)	(192,743)	192,743	0

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Interest Payable and Receivable

Interest Payable and Similar Charges		
<u>2023/24</u>		<u>2024/25</u>
£000		£000
9,482	Interest on External Loans	10,942
5,602	PFI Schemes and Leases	5,408
626	Payments to HCC in respect of Transferred Debt	650
623	Other	289
2,016	Movement of impairment allowance & debt write-offs	2,730
<u>18,349</u>		<u>20,019</u>

Interest and Investment Income		
<u>2023/24</u>		<u>2024/25</u>
£000		£000
(3,418)	Investments	(2,596)
1,006	(Gain) /Loss on Financial Instruments	(478)
<u>(2,412)</u>		<u>(3,074)</u>

12. Property, Plant and Equipment (PPE)

PPE are shown at a current net book value of £1,472M (2023/24 £1,460M), an increase of £12M after £115M has been moved to Right of Use Assets (2023/24 £136M decrease). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2025.

a) Depreciation

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

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 120 years – see note 1r) for further details.

b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. Valuations were contracted out for 2024/25 and were carried out by Bruton Knowles. 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. Movement in Infrastructure

NOTES TO THE CORE FINANCIAL STATEMENTS

Assets is shown separately in note e).

c) Disposals

For 2024/25 there was an overall gain of £2.2M (2023/24 - £31.3M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, of which £0.4M related to the General Fund and £1.8M to the Housing Revenue Account.

d) 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.

e) Infrastructure Assets

In accordance with the temporary relief offered by the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The Net Book Value (NBV) of Infrastructure Assets at 31 March 2025 was £316.5M (£301.7M at 31 March 2024). Movements in the NBV are shown below.

Movement on Infrastructure Assets	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Balance at start of year	279,538	301,686
Additions	29,524	19,945
Depreciation in Year	(7,376)	(5,097)
Balance at End of Year	<u>301,686</u>	<u>316,534</u>

Reconciling Note for PPE	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Infrastructure Assets	301,686	316,534
Other PPE Assets	1,158,497	1,155,589
Balance at End of Year	<u>1,460,183</u>	<u>1,472,123</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The authority has determined in accordance with Regulation [30M England] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be de-recognised for infrastructure assets when there is replacement expenditure is nil.

Movement in Property, Plant & Equipment (PPE) 2024/25							
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2024	625,785	488,414	75,578	3,007	3,011	8,754	1,204,549
Adjustment to Previous Year Charges	0	(100,150)	(25,820)	0	0	0	(125,970)
	625,785	388,264	49,758	3,007	3,011	8,754	1,078,579
Additions	43,950	6,432	1,784	0	0	4,750	56,916
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	39,656	0	0	0	0	39,656
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	36,464	(5,348)	0	0	0	0	31,116
Derecognition-Disposals	(1,588)	(4,045)	(69)	0	0	0	(5,702)
At 31 March 2025	704,611	424,959	51,473	3,007	3,011	13,504	1,200,565
Accumulated Depreciation and Impairment							
At 1 April 2024	0	(9,881)	(35,744)	(379)	(48)	0	(46,052)
Adjustment to Previous Year Charges	0	2,001	9,045	0	0	0	11,046
	0	(7,880)	(26,699)	(379)	(48)	0	(35,006)
Depreciation in Year	(19,973)	(12,296)	(4,614)	(18)	(2)	0	(36,903)
Written out to the Revaluation Reserve	0	4,794	0	0	0	0	4,794
Written out to the (Surplus)/ Deficit on the Provision of Services	19,973	1,706	0	0	0	0	21,679
Derecognition-Disposals	0	396	64	0	0	0	460
At 31 March 2025	0	(13,280)	(31,249)	(397)	(50)	0	(44,976)
Net Book Value							
At 31 March 2025	704,611	411,679	20,224	2,610	2,961	13,504	1,155,589
At 31 March 2024	625,785	478,533	39,834	2,628	2,963	8,754	1,158,497

NOTES TO THE CORE FINANCIAL STATEMENTS

	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				20,224	316,534	2,610		13,504	352,872
Valued at Fair Value in:									
2024/25		704,611	192,871				0		897,482
2023/24			139,400				1,800		141,200
2022/23			64,879				0		64,879
2021/22			5,929				0		5,929
2020/21			843				62		905
2019/20			6,973				1,099		8,072
Deminimus			784				0		784
Net Book Value as at 31 March 2025		704,611	411,679	20,224	316,534	2,610	2,961	13,504	1,472,123

Movement in Property, Plant & Equipment (PPE) 2023/24								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2023	753,564	477,649	73,945	2,769	1,442	50,003	1,359,372	91,390
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0
	753,564	477,649	73,945	2,769	1,442	50,003	1,359,372	91,390
Additions	35,306	4,490	4,128	0	0	3,061	46,985	30
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	29,398	0	0	0	0	29,398	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(172,279)	(11,016)	0	0	1,569	0	(181,726)	2,351
Derecognition-Disposals	(1,607)	(11,869)	(2,495)	0	0	(33,509)	(49,480)	
Reclassified outside PPE	0	0	0	0	0	0	0	
Other Reclassifications	10,801	(238)	0	238	0	(10,801)	0	
At 31 March 2024	625,785	488,414	75,578	3,007	3,011	8,754	1,204,549	93,771
Accumulated Depreciation and Impairment								
At 1 April 2023	0	(12,065)	(30,263)	(361)	(46)	0	(42,735)	(12,483)
Adjustment to Previous Year Charges	0						0	0
	0	(12,065)	(30,263)	(361)	(46)	0	(42,735)	(12,483)
Depreciation in Year	(17,257)	(18,684)	(5,481)	(18)	(2)	0	(41,442)	(4,632)
Written out to the Revaluation Reserve	0	17,487	0	0	0	0	17,487	
Written out to the (Surplus)/ Deficit on the Provision of Services	17,257	2,733	0	0	0	0	19,990	6,151
Derecognition-Disposals	0	648	0	0	0	0	648	0
At 31 March 2024	0	(9,881)	(35,744)	(379)	(48)	0	(46,052)	(10,964)
Net Book Value								
At 31 March 2024	625,785	478,533	39,834	2,628	2,963	8,754	1,158,497	82,807
At 31 March 2023	753,564	465,584	43,682	2,408	1,396	50,003	1,316,637	78,907

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Commitments

At 31 March 2025, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2025/26 and future years budgeted to cost £81.2M. Similar commitments at 31 March 2024 were £73.1M. The major commitments are:

	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
HRA - Supporting Communities	265	243
HRA - Improving Quality of Homes	5,121	10,209
HRA - Supporting Independent Living	9,105	741
HRA - Making Homes Safe	43,169	38,397
HRA - Making Homes Energy Efficient	9,127	4,399
HRA - Regeneration	455	606
Southampton All Through School	395	2,570
School Condition Work	137	3,251
Newland Hearing Centre	60	67
SEND Expansion	1,128	3,202
Children's Services - Assessment & Residential Units		1,093
Desktop Refresh	127	219
Purchase of Vehicles	75	201
Public Sector Decarbonisation Scheme		991
Heritage Asset Investment	765	2,922
Art Gallery Roof		4,132
Outdoor Sports Centre Improvements	233	2,205
Future Transport Zone	2,458	4,082
Transforming Cities Fund		408
Other Various Minor Commitments	488	1,254
Total	<u>73,108</u>	<u>81,192</u>

13. Heritage Assets

As set out in our Accounting Policies, Note 11) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2023	190,000	1,949	191,949
Additions		963	963
Adj for depreciation previously written out			0
31 March 2024	190,000	2,912	192,912
Accumulated Depreciation and Impairment			
01 April 2023	0	(29)	(29)
Adj for depreciation previously written out			0
Charge for year		0	0
31 March 2024	0	(29)	(29)
Net Book Value			
31 March 2024	190,000	2,883	192,883
31 March 2023	190,000	1,920	191,920
	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2024	190,000	2,912	192,912
Additions		1,402	1,402
Adj for depreciation previously written out			0
31 March 2025	190,000	4,314	194,314
Accumulated Depreciation and Impairment			
01 April 2024	0	(29)	(29)
Depreciation		0	0
31 March 2025	0	(29)	(29)
Net Book Value			
31 March 2025	190,000	4,285	194,285
31 March 2024	190,000	2,883	192,883

NOTES TO THE CORE FINANCIAL STATEMENTS

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:

<u>2023/24</u>		<u>2024/25</u>
£000		£000
(6,841)	Rental Income	(8,180)
555	Operating Expenditure	626
(6,286)	Net (Income) / Expenditure	(7,554)
(12,165)	Net (Gains) / Losses from fair value adjustments	367
<u>(18,451)</u>	Total Net (Income) / Expenditure	<u>(7,187)</u>

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

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

	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Balance at start of year	112,364	123,676
Additions:		
Purchases	177	40,000
Subsequent Expenditure	0	0
Disposals	(1,030)	(50,747)
Net gains / (losses) from fair value adjustments	12,165	(367)
Balance at End of Year	<u>123,676</u>	<u>112,562</u>

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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).

<u>Purchased Software</u>		
	<u>31 March</u>	<u>31 March</u>
	<u>2024</u>	<u>2025</u>
	£000	£000
Gross carrying amount	17,655	19,226
Derecognition of Assets fully amortised	(324)	(2,348)
	17,331	16,878
Accumulated amortisation	(7,830)	(9,155)
Net Carrying Amount at Start of the Year	9,501	7,723
Purchases	1,895	1,369
Amortisation for the period	(3,673)	(4,319)
Net Carrying Amount at End of the Year	7,723	4,773

16. Assets Held for Sale (AHFS)

As at 31 March 2025 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year. Proposals for asset sales are likely to come forward in the next 12 months as part of the Asset Development and Disposal Programme. Any investment properties that are marketed for sale remain in that category and are not reclassified to AHFS.

NOTES TO THE CORE FINANCIAL STATEMENTS

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), leases and investment transactions are classified as financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. 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 majority of the Council's 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,
- Leases where the Council is acting as lessee,
- 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 not 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:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:
 - cash in hand,
 - bank current and deposit accounts,
 - loans to other local authorities,
 - covered bonds issued by banks and building societies,
 - bonds issued by multilateral development banks and large companies,
 - loans made for service purposes,
 - trade receivables for goods and services provided.
- Fair value through profit and loss (all other financial assets) comprising:
 - money market funds managed by fund managers,
 - pooled property funds managed by CCLA fund managers,
 - equity investments

Financial assets held at amortised cost are shown net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

b) Financial Instruments Balances

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Long Term</u>		<u>Short Term</u>		<u>Total</u>	
	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
Financial Liabilities	2024	2025	2024	2025	2024	2025
	£000	£000	£000	£000	£000	£000
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(277,997)	(338,997)	(34,600)	(19,000)	(312,597)	(357,997)
- Accrued interest			(2,230)	(2,288)	(2,230)	(2,288)
Total Borrowing	(277,997)	(338,997)	(36,830)	(21,288)	(314,827)	(360,285)
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(2,997)	(1,976)	(2,997)	(1,976)
Total Cash Overdrawn	0	0	(2,997)	(1,976)	(2,997)	(1,976)
<i>Liabilities at amortised cost:</i>						
- Leases		(634)				(634)
- PFI arrangements	(37,105)	(44,528)			(37,105)	(44,528)
- Other long-term creditors	(37)	(37)			(37)	(37)
Total Long-term Creditors	(37,142)	(45,199)	0	0	(37,142)	(45,199)
<i>Liabilities at amortised cost:</i>						
- Leases				(74)		(74)
- PFI arrangements			(3,976)	(5,141)	(3,976)	(5,141)
- Trade payables			(34,961)	(44,429)	(34,961)	(44,429)
Included in Creditors	0	0	(38,937)	(49,644)	(38,937)	(49,644)
Total Financial Liabilities	(315,139)	(384,196)	(78,764)	(72,908)	(393,903)	(457,104)

	<u>Long Term</u>		<u>Short Term</u>		<u>Total</u>	
	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
Financial Assets	2024	2025	2024	2025	2024	2025
	£000	£000	£000	£000	£000	£000
<i>At amortised cost</i>						
- Principal	1,025	20	0	0	1,025	20
- Accrued interest			53	1,055	53	1,055
<i>At fair value through profit & loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	314	300	314	300
- Fair value adjustments	(2,206)	(1,728)			(2,206)	(1,728)
Total Investments	25,819	25,292	367	1,355	26,186	26,647
<i>Loans and Receivables</i>						
<i>At amortised cost</i>						
- Principal			139	134	139	134
<i>At fair value through profit & loss</i>						
- Principal			7,830	35,490	7,830	35,490
- Accrued interest						0
Total Cash and Cash Equivalents	0	0	7,969	35,624	7,969	35,624
<i>At amortised costs</i>						
- Trade receivables			26,757	28,333	26,757	28,333
- Loans made for service purposes	3,130	2,932	0	0	3,130	2,932
Included in Debtors	3,130	2,932	26,757	28,333	29,887	31,265
Total Financial Assets	28,949	28,224	35,093	65,312	64,042	93,536

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 includes accrued interest on long term liabilities and investments that is payable/receivable in 2025/26.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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:

	2023/24	2024/25			
		Financial Liabilities	Financial Assets		Total
		Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	16,333	17,289			17,289
Gains/losses on derecognition	0	0			0
Impairment Losses	2,016		2,730		2,730
Interest Payable and Similar Charges	18,349	17,289	2,730	0	20,019
Interest income	(3,419)		(1,315)	(1,281)	(2,596)
Gains/losses on derecognition	1,007			(478)	(478)
Interest and Investment Income	(2,412)	0	(1,315)	(1,759)	(3,074)
Net Gain / (Loss) for the Year	15,937	17,289	1,415	(1,759)	16,945

e) Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2025, using the following methods and assumptions:

- Loans borrowed by the Council 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.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values 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 2025.
- 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 lower than their balance sheet carrying amount. This is because the authority’s portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2024</u>	<u>2024</u>			<u>2025</u>	<u>2025</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Liabilities held at amortised cost					
(288,597)	(241,827)	Public Works Loans	2	(351,997)	(289,100)
(4,000)	(4,357)	LOBO Loans	2	(4,000)	(4,192)
(292,597)	(246,184)			(355,997)	(293,292)
Liabilities for which Fair Value is not disclosed*					
(41,081)		PFI/Lease Liabilities		(50,377)	
(37)		Other Long Term Creditors		(37)	
(22,230)		Short Term borrowing		(4,288)	
(2,997)		Bank Overdraft		(1,976)	
(34,961)		Trade Payables (Creditors)		(44,429)	
(101,306)				(101,107)	
(393,903)		Total Financial Liabilities		(457,104)	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost as at 31 March 2024 was higher than the balance sheet carrying amount because the interest rate on similar investments at that date was lower than that obtained when the investment was originally made.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2024</u>	<u>2024</u>			<u>2025</u>	<u>2025</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Assets held at Fair Value through P&L					
7,830	7,830	Money Market Funds	1	35,490	35,490
24,794	24,794	Property Funds	2	25,272	25,272
32,624	32,624			60,762	60,762
Financial Assets held at Amortised Costs					
1,005	1,058	Corporate, Covered and Government Bonds	1	0	0
1,005	1,058			0	0
Assets for which Fair Value is not disclosed**					
<i>Recorded on balance sheet as:</i>					
3,130		Long Term Debtors		2,932	
367		Short Term investments		1,355	
20		Shares in unlisted companies		20	
139		Cash and Cash Equivalents		134	
26,757		Trade Receivables (Debtors)		28,333	
0		Other Debtors		0	
30,413				32,774	
64,042		Total Financial Assets		93,536	

**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 and there are no similar companies whose shares are traded, and which might provide comparable market data.

NOTES TO THE CORE FINANCIAL STATEMENTS

f) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

In line 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.

g) Credit Risk

Treasury 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 £62.3M (2023/24 £34.1M) 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 2025 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy, approved by Council on 6 March 2024. The Treasury Management Strategy can be found on the following web link:

[Appendix 4 - Treasury Management Strategy 2024-25](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2025 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

NOTES TO THE CORE FINANCIAL STATEMENTS

Credit Rating	Long Term		Short Term	
	2024 £000	2025 £000	2024 £000	2025 £000
AAA	1,005	0	53	1,055
AA+			0	0
AA			0	0
AA-			0	10
A+			7,820	35,380
A			149	234
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	24,794	25,272	314	300
Total Investments	25,819	25,292	8,336	36,979

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.

The above analysis shows that all deposits outstanding as at 31 March 2025 met the Council's minimum credit rating criteria of A or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2025 (and 31 March 2024) falls below the Council's de-minimis level of £0.01M so no offset was made.

Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. council tax, business rates), are excluded as they have not arisen from contractual trading activities.

<u>Trade Debtors and Impairment Allowance</u>		
	<u>Outstanding</u> <u>31 March 2024</u> £000	<u>Outstanding</u> <u>31 March 2025</u> £000
Trade Debtors	26,757	28,333
Trade Debtors Impairment Allowance	(9,612)	(11,490)

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Adult Social Care clients (£3.62M)
- Housing tenants (£7.20M)
- Other service recipients (£0.67M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council's trade debtors by due date.

<u>2023/24</u>		<u>2024/25</u>
£000		£000
	<u>Trade debtors, analysed by age</u>	
6,368	Less than two months	6,037
5,506	Two to six months	6,087
5,195	Six months to one year	5,123
9,688	More than one year	11,086
<u>26,757</u>		<u>28,333</u>

h) 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 50% 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 2025 was as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> <u>31 March 2024</u>	<u>% of Total</u> <u>Portfolio</u>	Total Financial Liabilities	<u>Outstanding</u> <u>31 March 2025</u>	<u>% of Total</u> <u>Portfolio</u>
£000	%	Source of Loan	£000	%
(288,597)	73	Public Works Loan Board	(351,997)	77
(24,000)	6	Other Financial Institutions (borrowing)	(6,000)	1
(34,961)	9	Trade Payables	(44,429)	10
(46,345)	12	Other Financial Institutions	(54,678)	12
(393,903)	100		(457,104)	100

Analysis of Loans by Maturity				
(74,764)	19	Less than 1 Year	(68,908)	15
(14,085)	4	Between 1 and 2 years	(67,717)	15
(43,374)	11	Between 2 and 5 years	(57,618)	13
(79,610)	20	Between 5 and 10 years	(88,827)	19
(33,223)	8	Between 10 and 20 years	(25,187)	5
(144,847)	37	Between 20 and 40 years	(144,847)	32
0	0	Over 40	0	0
(4,000)	1	Uncertain Date*	(4,000)	1
(393,903)	100		(457,104)	100

*Please note that the authority has £4M 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. The maturity date is therefore uncertain, however it is treated as short term within the accounts because the loans could be called within the year.

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

<u>Loans and Other Long term Liabilities Outstanding (Nominal Value)</u>		
	<u>Outstanding</u> <u>31 March 2024</u>	<u>Outstanding</u> <u>31 March 2025</u>
Source	£000	£000
Public Works Loan Board	(288,597)	(351,997)
Market Debt	(4,000)	(4,000)
Temporary Borrowing	(20,000)	(2,000)
PFI Liabilities	(41,081)	(49,669)
Lease Liabilities		(708)
Other Long-term Creditors	(37)	(37)
Total	(353,715)	(408,411)

NOTES TO THE CORE FINANCIAL STATEMENTS

i) 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 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 measured at amortised costs 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 measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

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 2025 £403.0M (116%) (2023/24 £348.3M (109%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £56.9M (2023/24 £28.8M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services of changes in interest rates. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt.

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

2023/24		2024/25	
£000		£000	
1,869	Increase in interest payable on variable rate borrowings	1,932	
(200)	Increase in interest payable on variable rate investments	(200)	
1,084	Decrease in fair value of investments held at FVPL (assumes 5%)	1,013	
2,753	Impact on the Provision of Services (Surplus) / Deficit	2,745	
301	Share of overall impact debited/credited to HRA	484	
(51,942)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost <i>(no impact on Comprehensive Income and Expenditure)</i>	(30,643)	

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

The Council has £4M (2024: £4M) 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. The likelihood of the lender increasing the rate increases with the rise in market interest rates during the year.

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 as described below.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2025 the Council had £27M (2023/24 £27M) invested in the Local Authority Property Fund which was valued with an increase in fair value of £0.5M (2023/24 £1.0M decrease), taking the fair value from £24.8M to £25.3M. A 5% fall in commercial property prices would result in a £1.0M (2023/24 £1.1M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2025.

<u>31 March</u>		<u>31 March</u>
<u>2024</u>		<u>2025</u>
<u>£000</u>		<u>£000</u>
3,130	Housing Improvement Loans	2,932
<u>3,130</u>		<u>2,932</u>

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2025.

<u>31 March</u>	<u>Debtors</u>	<u>31 March</u>
<u>2024</u>		<u>2025</u>
<u>£000</u>		<u>£000</u>
8,198	Central Government	13,334
5,031	Other Local Authorities	4,924
5,545	NHS Bodies	3,986
62,253	Other Entities and Individuals	68,247
(27,574)	Debtors Impairment Allowance	(30,755)
0	Public Corporations and Trading Funds	0
<u>53,453</u>	Total Debtors	<u>59,736</u>

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 shows that the bank accounts were overdrawn by £2.0M (2023/24 £3.0M overdrawn), the Council's actual position at the Bank was a credit balance of £1.4M at 31 March 2025 (£0.6M credit at 31 March 2024). 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

31 March		31 March
2024		2025
£000		£000
(2,997)	Bank Accounts	(1,976)
(2,997)		(1,976)
7,830	Money Market Funds	35,490
0	Call Accounts	0
139	Petty Cash	134
7,969		35,624
4,972		33,648

20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2025.

	Creditors	
31 March		31 March
2024		2025
£000		£000
26,198	Central Government	24,474
5,489	Other Local Authorities	5,026
2,568	NHS Bodies	3,064
58,055	Other Entities and Individuals	72,093
92,310	Total Creditors	104,657

The £14.0M increase in other entities and individuals creditors relates primarily to the timing of the last payments made to suppliers before 31st March and that some supplier payments were made earlier than usual in 2023/24 due to the Easter weekend coinciding with the year end.

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Balance at 31</u> <u>March 2024</u>	<u>Additional</u> <u>Provisions</u> <u>Made in Year</u>	<u>Amounts</u> <u>Used in Year</u>	<u>Unused</u> <u>amounts</u> <u>reversed in</u> <u>year</u>	<u>Balance at 31</u> <u>March 2025</u>
	£000	£000	£000	£000	£000
<u>General Fund</u>					
NDR Appeals Provision	6,350	12,609	(13,336)		5,623
General Insurance Funds	2,004	269	(110)		2,163
Pay & Allowances Provision	306	49,168	(243)		49,231
Other Provisions		217			217
Total	8,660	62,263	(13,689)	0	57,234

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u> <u>Due within 1</u> <u>Year</u>	<u>Due between</u> <u>2 to 5 years</u>	<u>Over 5 years</u>	<u>Total Long</u> <u>Term</u>	<u>Balance at 31</u> <u>March 2025</u>
	£000	£000	£000	£000	£000
<u>General Fund</u>					
NDR Appeals Provision	3,023	2,600	0	2,600	5,623
General Insurance Funds	670	1,493	0	1,493	2,163
Pay & Allowances Provision	49,231	0	0	0	49,231
Other Provisions	217	0	0	0	217
Total	53,141	4,093	0	4,093	57,234

a) 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 year and earlier years and other Rateable Value list amendments. Therefore, the Council's share of the provision (49% in 2024/25) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2025.

The estimate is based on an assessment by an external advisor of the likely success of the appeals/checks/challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.

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. For 2024/25 the annual contribution ('top up') to the internal insurance fund was paused as part of the required budget saving exercise across the Council. The annual fund contribution will however recommence in 2025/26.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2025 amounted to £2.2M (2023/24 £2.0M). Additionally, a further £1.0M (2023/24 £1.7M) is held in an insurance reserve to meet

NOTES TO THE CORE FINANCIAL STATEMENTS

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 and general claims inflation.

c) Pay & Allowances Provision

The Council has made a provision of £49.2M for the estimated cost of settling equal pay claims.

d) Other Provisions

All other provisions are not material.

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 Capital Adjustment Account.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u> £000		<u>2024/25</u> £000
(435,248)	Balance Brought Forward	(472,341)
(99,076)	Upward revaluations of assets	(63,997)
52,191	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	21,573
(46,885)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(42,424)
8,926	Difference between fair value depreciation and historical cost depreciation	11,871
866	Accumulated Revaluations on Disposals	1,573
<u>(472,341)</u>	Balance Carried Forward	<u>(501,321)</u>

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u>		<u>2024/25</u>
<u>£000</u>		<u>£000</u>
(960,708)	Balance Brought Forward	(787,871)
	Capital Financing	
(4,204)	Usable Capital Receipts	(46,405)
(46,017)	Capital Grants & Contributions	(42,511)
(17,967)	HRA Financing from the Major Repairs Reserve	(20,817)
(8,001)	Revenue Contributions	(4,639)
	Other Movements	
18,953	Revenue Expenditure Funded from Capital under Statute	13,608
0	Capitalisation Direction	56,634
(12,165)	Net gains/losses from fair value adjustments on Investment	367
3,673	Amortisation of Intangibles	4,319
210,555	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	578
49,862	Disposals	55,989
(8,926)	Historic Cost Depreciation Adjustment	(11,871)
(866)	Accumulated Revaluations on Disposals	(1,573)
(12,345)	Provision for the Financing of Capital Investment	(16,570)
0	Use of Capital Receipts to Repay Loans	(7,492)
285	Other adjustments	197
<u>(787,871)</u>	Balance Carried Forward	<u>(808,057)</u>

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u>		<u>2024/25</u>
£000		£000
98,054	Balance Brought Forward	33,655
(70,701)	Remeasurement of the net defined benefit liability/(asset)	(11,228)
35,296	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	27,030
(28,994)	Employer's pension contributions and direct payments to pensioners payable in the year.	(27,075)
33,655	Balance Carried Forward	22,382

d) Collection Fund Adjustment Account

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

<u>2023/24</u>		<u>2024/25</u>
£000		£000
(5,712)	Balance Brought Forward	(3,085)
278	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	(490)
2,349	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	1,528
(3,085)	Balance Carried Forward	(2,047)

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 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u>		<u>2024/25</u>
£000		£000
2,582	Balance Brought Forward	2,760
(2,582)	Settlement or cancellation of accrual made at the end of the preceding year	(2,760)
<u>2,760</u>	Amounts accrued at the end of the current year	<u>4,867</u>
<u>2,760</u>	Balance Carried Forward	<u>4,867</u>

f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for each of the financial years 2020/21 to 2027/28 it must not charge the amount of that deficit to a revenue account and instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account was created for that purpose. For 2024/25 there was a DSG deficit and this has been transferred to this account.

Further details on the deployment of DSG are provided in Note 28.

<u>2023/24</u>		<u>2024/25</u>
£000		£000
11,092	Balance Brought Forward	11,092
0	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,948
<u>11,092</u>	Balance Carried Forward	<u>17,040</u>

g) Pooled Fund Adjustment Account

This account holds fair value gains and losses on pooled investment funds (non-capital) which are not recognised in the General Fund in accordance with a government issued statutory override. The statutory override has been extended to 31 March 2029 for investments in place before 1 April 2024.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u>		<u>2024/25</u>
£000		£000
1,199	Balance Brought Forward	2,206
1,199		2,206
1,007	(Upward) / Downward Revaluation of Investments	(478)
	Downward Revaluation of Investments not charged to the Surplus/ Deficit on the Provision of Service	
<u>2,206</u>	Balance Carried Forward	<u>1,728</u>

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

<u>2023/24</u>		<u>2024/25</u>
£000		£000
(187,102)	Net Surplus or (Deficit) on the Provision of Services	3,810
	Adjust net surplus or deficit on the provision of services for non cash movements	
48,818	Depreciation	42,000
161,737	Movement on assets charged to revenue	(41,422)
3,673	Amortisation	4,319
1,007	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	(478)
1,056	Increase/(Decrease) in Interest Creditors	58
(1,212)	Increase/(Decrease) in Creditors	15,627
(33)	(Increase)/Decrease in Interest and Dividend Debtors	17
2,394	(Increase)/Decrease in Debtors	(5,990)
41	(Increase)/Decrease in Inventories	(198)
6,302	Pension Liability	(45)
827	Contributions to/(from) Provisions	(594)
	Provision for Equal Pay	49,168
49,862	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	55,989
(12,165)	Movement in Investment Property Values	367
<u>262,307</u>		<u>118,818</u>
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(46,799)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(41,716)
(18,515)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(58,211)
(222)	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(216)
(41)	Allowable deduction arising from disposal	(43)
<u>(65,577)</u>		<u>(100,186)</u>
<u>9,628</u>	Net Cash Flows from Operating Activities	<u>22,442</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Operating Activities – Interest

<u>2023/24</u>		<u>2024/25</u>
£000		£000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
(32)	Interest Received	2,613
(15,277)	Interest Paid	(17,231)

c) Cash Flows from Investing Activities

<u>2023/24</u>		<u>2024/25</u>
£000		£000
	Cash Flows from Investing Activities	
(77,949)	Property, Plant and Equipment Purchased	(121,686)
(206,510)	Purchase of short term investments	(203,950)
18,556	Proceeds from the sale of property plant and equipment, investment property and intangible assets	58,254
217,570	Proceeds from short-term and long-term investments	203,950
41,235	Other Receipts from Investing Activities - Capital Grants & Contributions Received	34,274
<u>(7,098)</u>	Total Cash Flows from Investing Activities	<u>(29,158)</u>

d) Cash Flows from Financing Activities

<u>2023/24</u>		<u>2024/25</u>
£000		£000
	Cash Flows from Financing Activities	
30,000	Cash receipts of short and long term borrowing	148,000
(15,131)	Billing Authorities - Council Tax and NNDR adjustments	(2,903)
(20,963)	Repayment of Short-Term and Long-Term Borrowing	(102,964)
(3,294)	Cash payments for the reduction of the outstanding liabilities relating to leases and on-balance sheet PFI contracts	(6,741)
<u>(9,388)</u>	Total Cash Flows from Financing Activities	<u>35,392</u>

e) Make-up of Cash and Cash Equivalents

<u>2023/24</u>		<u>2024/25</u>
£000		£000
	Makeup of Cash and Cash Equivalents	
139	Cash and Bank Balances	134
7,830	Cash Investments - regarded as cash equivalents	35,490
(2,997)	Bank Overdraft	(1,976)
<u>4,972</u>		<u>33,648</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

f) Changes in liabilities

	1 April 2024	Cash Flows	Non-Cash Movements	31 March 2025
	£000	£000	£000	£000
Long-term borrowing	277,997	74,000	(13,000)	338,997
Short-term borrowing	36,830	(28,600)	13,058	21,288
Other deferred liabilities	12,371	(364)		12,007
Leases and PFI contracts	41,081	(6,741)	16,037	50,377
Total	368,279	38,295	16,095	422,669

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 business rates income is in substance an agency arrangement:

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors the Police & Crime Commissioner for Hampshire and the Isle of Wight and Hampshire and Isle of Wight Fire & Rescue Authority. There will therefore be a debtor/creditor position between Southampton City Council 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 business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (2023/24 Southampton City Council 49%, Government 50% and Hampshire and Isle of Wight Fire & Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and H&IOWFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

25. Members' Allowances

The total of members' allowances paid in 2024/25 was £0.89M (2023/24 was £0.87M) as detailed in the table below.

	2023/24	2024/25
	£000	£000
Basic Allowances	701	707
Responsibility & Other Allowances	165	181
Expenses	4	4
Total	870	892

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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 2023/24.

<u>Band £</u>		<u>Number of Employees</u>					
		<u>2023/24</u>			<u>2024/25</u>		
		<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 -	54,999	99	150	249	101	180	281
55,000 -	59,999	67	120	187	77	117	194
60,000 -	64,999	43	79	122	59	87	146
65,000 -	69,999	30	36	66	32	37	69
70,000 -	74,999	12	17	29	25	24	49
75,000 -	79,999	22	11	33	20	10	30
80,000 -	84,999	9	10	19	12	9	21
85,000 -	89,999	10	6	16	12	5	17
90,000 -	94,999	2	7	9	8	4	12
95,000 -	99,999	1	3	4	3	5	8
100,000 -	104,999	4	1	5	1	2	3
105,000 -	109,999	0	2	2	4	2	6
110,000 -	114,999	1	3	4	2	0	2
115,000 -	119,999	0	1	1	1	1	2
120,000 -	124,999	1	0	1	0	1	1
125,000 -	129,999	0	0	0	0	0	0
130,000 -	134,999	1	1	2	0	1	1
135,000 -	139,999	2	0	2	3	1	4
140,000 -	144,999	0	0	0	0	1	1
145,000 -	149,999	1	2	3	1	0	1
150,000 -	154,999	0	0	0	0	0	0
155,000 -	159,999	0	0	0	0	1	1
160,000 -	164,999	0	1	1	0	0	0
165,000 -	169,999	0	0	0	0	1	1
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	0	0
185,000 -	189,999	0	0	0	0	0	0
190,000 -	194,999	0	0	0	0	0	0
195,000 -	199,999	0	0	0	0	0	0
200,000 +		0	1	1	0	1	1
		305	451	756	361	490	851

NOTES TO THE CORE FINANCIAL STATEMENTS

2024/25

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2024/25	Pensions contributions (see Note 4)	Total Remuneration including pension contributions 2024/25
	£	£	£	£	£	£	£
Chief Executive - Andrew Travers	204,736	448			205,184		205,184
Executive Director - Community Wellbeing (DASS) - Claire Edgar (Note 2) until 06/10/2024	78,366				78,366	13,074	91,440
Executive Director - Wellbeing (Children & Learning) - Robert Henderson (Note 2)	169,990	39			170,029	25,764	195,793
Executive Director - Growth & Prosperity - Haq Nawaz Khan until 18/08/2024	58,118				58,118	9,764	67,882
Executive Director - Growth & Prosperity - Stephen Haynes from 19/08/2024	102,016				102,016	17,139	119,155
Executive Director - Enabling Services - Mel Creighton	159,570				159,570	26,808	186,378
Director - Strategy & Performance - Munira Holloway	95,440	91			95,531	16,034	111,565
Director - Legal & Governance - Richard Ivory	130,016	161			130,177	19,793	149,970
	998,252	739	-	-	998,991	128,376	1,127,367

Note 1

Between 01/04/2024 and 31/03/2025 the Executive Director - Resident Services role was undertaken by Debbie Ward via an external company. Payment for this period was £226,200 excluding VAT.

Note 2

From 20/09/2024 the combined role of Executive Director - Community Wellbeing, Children and Learning was undertaken by Robert Henderson.

Note 3

There were no bonuses paid.

Note 4

In 2024/25 the employer's contribution rate for the Local Government Pension Scheme was 16.8%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2023/24

<u>Post Holder</u>	<u>Salary</u> <u>(including</u> <u>fees &</u> <u>allowances)</u>	<u>Expense</u> <u>Allowances</u>	<u>Compensation</u> <u>for loss of</u> <u>office</u>	<u>Benefits in</u> <u>Kind</u>	<u>Total</u> <u>Remuneration</u> <u>excluding</u> <u>pension</u> <u>contributions</u> <u>2023/24</u>	<u>Pensions</u> <u>contributions</u> <u>(see Note 4)</u>	<u>Total</u> <u>Remuneration</u> <u>including</u> <u>pension</u> <u>contributions</u> <u>2023/24</u>
	£	£	£	£	£	£	£
Chief Executive - Andrew Travers from 29/01/2024	34,901				34,901		34,901
Chief Executive - Mike Harris until 31/03/2024	180,369		75,000		255,369	30,302	285,671
Executive Director - Community Wellbeing (DASS) - Claire Edgar (Note 2)	147,414				147,414	24,766	172,180
Executive Director - Wellbeing (Children & Learning) - Robert Henderson	165,000	37			165,037	25,774	190,811
Executive Director - Corporate Services - Mel Creighton	147,097				147,097	24,712	171,809
Director - Strategy & Performance - Munira Holloway	90,962				90,962	15,282	106,244
Director - Legal & Governance - Richard Ivory	131,954	251			132,205	3,218	135,423
	897,697	288	75,000	-	972,985	124,054	1,097,039

Note 1

Between 01/04/2023 and 28/03/2024 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £234,457 excluding VAT.

Note 2

Between 11/03/2024 and 31/03/2024 the Executive Director - Resident Services role was undertaken by Debbie Ward via an external company. Payment for this period was £9,860 excluding VAT. Previously services within the scope of this new role were undertaken by Claire Edgar and Adam Wilkinson.

Note 3

There were no bonuses paid.

Note 4

In 2023/24 the employer's contribution rate for the Local Government Pension Scheme was 16.8%.

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £1.9M (2023/24 £4.2M) 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Exit Package Cost Band (including special payments)</u>	<u>Number of compulsory Redundancies</u>		<u>Number of Other Departures agreed</u>		<u>Total Number of packages by Cost Band</u>		<u>Total Cost of Exit Packages in each Band</u>	
	<u>2023/24</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2023/24 £000</u>	<u>2024/25 £000</u>
£0-£20,000	19	68	58	19	77	87	637	695
£20,001-£40,000	4	9	23	2	27	11	764	337
£40,001-£60,000	1	2	16	1	17	3	821	146
£60,001-£80,000	0	6	6	2	6	8	410	547
£80,001-£100,000	0	0	8	1	8	1	686	87
£100,001-£150,000	0	0	4	1	4	1	478	100
£150,000+	1	0	1	0	2	0	367	0
Total	25	85	116	26	141	111	4,163	1,912

27. External Audit Costs

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

<u>2023/24</u>	<u>2024/25</u>
<u>£000</u>	<u>£000</u>
434 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	402
18 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	7
30 Fees payable to KPMG in respect of grant claims and returns for the year	35
482	444

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 for the year are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the Deployment of DSG Receivable for 2024/25 are as follows:

	<u>Central Expenditure</u>	<u>Individual Schools Budget</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Final DSG for 2024/25 before academy and high needs recoupment			271,786
Academy and high needs figure recouped for 2024/25			(91,562)
Total DSG after academy and high needs recoupment for 2024/25			180,224
Plus: Brought forward from 2023/24			3,987
Agreed initial budgeted distribution in 2024/25	37,444	146,767	184,211
In year adjustments	0	(1,543)	(1,543)
Final Budgeted Distribution for 2024/25	37,444	145,224	182,668
Less: Actual central expenditure	(46,878)		(46,878)
Less: Actual ISB deployed to schools		(141,738)	(141,738)
In-year Carry Forward to 2025/26	(9,434)	3,486	(5,948)
Plus Carry-forward to 2025/26 agreed in advance			0
Carry Forward to 2025/26			0
DSG unusable reserve at the end of 2023/24			(11,092)
Addition to DSG unusable reserve in 2024/25			(5,948)
DSG unusable reserve at the end of 2024/25			(17,040)
Net DSG position at the end of 2024/25			(17,040)

The overspend carried forward relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN), plus the cost of making a provision for potential equal pay claims from school employees.

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. 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, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council's pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: the Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Hampshire and Isle of Wight Integrated Care Board as disclosed in Note 39 Pooled Budgets; and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework

NOTES TO THE CORE FINANCIAL STATEMENTS

within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis. Details of any companies which the City Council has an interest are provided in Note 36.

Southampton Forward is an independent Culture Trust delivering on Southampton's UK City of Culture 2025 bidding legacy. With financial support from Arts Council England Place Partnership investment and city-wide partners, Southampton Forward is delivering economic, social, cultural and wider benefits for the city including showcasing Southampton as a great place to live, work, study, visit and invest. The role of Leader of the Council is as a trustee of Southampton Forward, on behalf of the Council. The Council made a grant payment and UKSPF funding to deliver additional activity totalling £0.56M in 2024/25 (£0.35M grant payments in 2023/24).

The Council incurred £0.006M of costs for maintenance of greens on behalf of Mayfield Bowls Club in 2024/25.

For elected members and senior officers related parties of the Council 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:

- One former councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.097M from the Council in 2024/25.
- Two councillors have an interest in Monty's Community Hub which received service payments of £0.038M in 2024/25.
- Two councillors have an interest in Music in the City which received grant payments of £0.003M from the Council in 2024/25.
- Two councillors are trustees of City Eye Limited which received grant payments of £0.020M from the Council in 2024/25.
- One councillor is a member of Oasis Hub Community Council which received grant and other payments of £0.013M from the Council in 2024/25.

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Opening Capital Financing Requirement	517,439	527,402
<i>Capital Investment</i>		
Intangible assets	1,895	1,369
Property Plant & Equipment	76,509	76,861
Revenue Expenditure Funded from Capital under Statute	18,953	13,608
Heritage Assets	963	1,402
Investment Properties	177	40,000
Right of Use Assets		16,460
<i>Revenue Expenditure met from Capital Resources</i>		
Capitalisation Direction		56,634
<i>Sources of Finance</i>		
Capital Receipts	(4,204)	(46,405)
Government grants & other contributions	(46,017)	(42,511)
Use of Major Repairs Reserve	(17,967)	(20,817)
Capital Expenditure met from the Revenue Account	(8,001)	(4,639)
MRP	(12,345)	(16,570)
Use of Capital Receipts to Repay Loans		(7,492)
Closing Capital Financing Requirement	<u>527,402</u>	<u>595,302</u>
<i>Explanation of Movements in Year</i>		
Increase in underlying need to borrow (unsupported by Government financial assistance)	22,308	75,927
MRP	(12,345)	(16,570)
Assets acquired under PFI contracts and leases		16,035
Use of Capital Receipts to Repay Loans	0	(7,492)
Increase / (Decrease) in Capital Financing Requirement	<u>9,963</u>	<u>67,900</u>

31. Leases

a) Council as a Lessee

In 2024/25, the Council applied IFRS 16 *Leases* as required by the Code. The new accounting standard requires leases to be recognised on the Balance Sheet as right of use assets and lease liabilities. Previously any operating leases were not recognised on the Balance Sheet. Leases for items of low value and leases with less than 12 months remaining are exempt from the new arrangements. The Code requires that on transition the new standard is applied retrospectively, but with the cumulative effect recognised at 1 April 2024. The Code includes the practical expedient on transition to IFRS16 that, with the exception of nil consideration leases, decisions about whether contracts are or contain leases made before 1 April 2024 are not to be revisited under the new arrangements. The Council did not identify any operating leases prior to 2024/25 and therefore there were no leases to recognise on transition. New leases that have been entered into during 2024/25 have been recognised as right of use assets, with corresponding liabilities. IFRS 16 also applies to PFI and similar contracts recognised on Balance Sheet – please see Note 32 for further details.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's lease contracts comprise leases of operational land and buildings, equipment and motor vehicles. The lease arrangements that are included within Right of Use Asset balances are as follows:

	<u>Land & buildings</u>	<u>Vehicles, plant & equipment</u>	<u>Total</u>
	£000	£000	£000
Cost or Valuation			
At 1 April 2024	34,673		34,673
Adjustment to Opening Balance			0
	34,673	0	34,673
Additions	634	112	746
Disposals			0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	(2,946)		(2,946)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(528)		(528)
Impairments			0
At 31 March 2025	31,833	112	31,945
Depreciation & Impairment			
At 1 April 2024	(82)		(82)
Adjustment to Opening Balance			0
	(82)	0	(82)
Depreciation Charge for the Year	(987)		(987)
Disposals			0
Written out to the Revaluation Reserve	920		920
Written out to the (Surplus)/ Deficit on the Provision of Services	149		149
Impairments			0
At 31 March 2025	0	0	0
Balance Sheet amount at 31 March 2025	31,833	112	31,945
Balance Sheet amount at 31 March 2024	34,591	0	34,591

Land & buildings includes an existing long-term lease of a property for which a premium was paid at the outset of the lease and there are no on-going liabilities. This property was previously recognised on the Balance Sheet within Property, Plant & Equipment.

The Right of Use Assets balance on the Balance Sheet comprises assets held under leases and PFI and similar contracts. The total balance is shown below.

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciling Note for Right of Use Assets

	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Leases		31,945
PFI & Similar Contracts		86,040
Balance at End of Year	0	117,985

The future liabilities in respect of the lease arrangements are as follows:

	<u>31 March</u>	<u>31 March</u>
	<u>2024</u>	<u>2025</u>
	£000	£000
Not later than one year		74
Later than one year and not later than five years		319
Later than five years		315
	0	708

b) Council as a Lessor

Operating Leases

The Council leases property and equipment under operating leases to other organisations 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:

	<u>31 March</u>	<u>31 March</u>
	<u>2024</u>	<u>2025</u>
	£000	£000
Not later than one year	32,709	5,602
Later than one year and not later than five years	19,450	18,630
Later than five years	510,262	518,677
	562,421	542,909

NOTES TO THE CORE FINANCIAL STATEMENTS

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 (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).

The new accounting standard IFRS 16 *Leases* applies to arrangements recognised on Balance Sheet. IFRS 16 requires the finance liability to be remeasured where indexation or changes in a rate affect future payments under the contract. On transition to IFRS 16 the finance liabilities have been remeasured as at 1 April 2024, with corresponding changes to the asset balances, and the assets have been reclassified as Right of Use Assets in the Balance Sheet.

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 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% share) 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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 streetlights 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 in the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and service concession arrangements that are included within Right of Use Asset balances are as follows.

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	
Cost or Valuation		<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 April 2024	52,391	15,561	25,819	93,771
Adjustment to Opening Balance	8,911	1,198	3,998	14,107
	61,302	16,759	29,817	107,878
Additions	1,080		528	1,608
Disposals				0
Revaluations		(2,476)		(2,476)
Impairments				0
At 31 March 2025	62,382	14,283	30,345	107,010
Depreciation & Impairment				
At 1 April 2024	(1,919)	0	(9,045)	(10,964)
Adjustment to Opening Balance				0
	(1,919)	0	(9,045)	(10,964)
Depreciation Charge for the Year	(6,031)	(2,909)	(1,066)	(10,006)
Disposals				0
Revaluations				0
Impairments				0
At 31 March 2025	(7,950)	(2,909)	(10,111)	(20,970)
Balance Sheet amount at 31 March 2025	54,432	11,374	20,234	86,040
Balance Sheet amount at 31 March 2024	50,472	15,561	16,774	82,807

The finance liabilities associated with the above schemes within the Balance Sheet is as follows:

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	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
Balance 1 April 2024	21,765	795	18,521	41,081
Adjustment to Opening Balance	8,911	1,198	3,998	14,107
Restated Balance 1 April 2024	30,676	1,993	22,519	55,188
New Schemes in 2024/25	0	0	0	0
Repayments	(3,593)	(1,892)	(1,218)	(6,703)
Remeasurements	656		528	1,184
Balance 31 March 2025	27,739	101	21,829	49,669
Due within 1 Year				
Balance 1 April 2024	2,428	757	791	3,976
Adjustment to Opening Balance	1,165	1,135	427	2,727
Restated Balance 1 April 2024	3,593	1,892	1,218	6,703
Repayments	(3,593)	(1,892)	(1,218)	(6,703)
Due within 1 Year	3,745	101	1,295	5,141
Balance 31 March 2025	3,745	101	1,295	5,141
Long Term Creditor Balance 31 March 2025	23,994	0	20,534	44,528

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

	<u>PFI - Schools</u>			<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	
	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>£000</u>
within 1 year	3,745	2,357	1,824	101	18	5,298	1,295	2,330	1,286	18,254
within 2 to 5 years	16,211	6,385	9,108				6,805	7,708	5,144	51,361
within 6 to 10 years	7,783	863	2,583				13,729	4,410	6,430	35,798
Balance 31 March 2025	27,739	9,605	13,515	101	18	5,298	21,829	14,448	12,860	105,413

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

	<u>BUPA Care Homes</u>		<u>Total</u>
	<u>Northlands</u>	<u>Oak Lodge</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>
within 1 year	4,191	2,806	6,997
within 2 to 5 years	11,191	11,223	22,414
within 6 to 10 years		13,608	13,608
Balance 31 March 2025	15,382	27,637	43,019

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>Liability</u>	<u>Interest</u>	<u>Service</u> <u>Charges</u>	<u>Total</u>
	£000	£000	£000	£000
PFI Schools	3,593	2,607	1,726	7,926
Hampshire Waste	1,892	359	19,054	21,305
PFI Street Lighting	1,218	2,407	1,286	4,911
BUPA Care Homes				
Northlands			3,902	3,902
Oak Lodge			2,644	2,644
Totals	6,703	5,373	28,612	40,688

33. Pension Schemes Accounted for as Defined Contribution Schemes

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 12,600 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 2024/25 the Council paid £14.8M to Teachers' Pensions in respect of teachers' retirement benefits, representing 28.7% of pensionable pay (2023/24 £12.1M and 23.7%). The contributions due to be paid in the next financial year are estimated to be £15.2M.

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.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2025.

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 2024/25 the Council paid an employer's contribution of £27.0M (2023/24 £29.0M) into Hampshire County Council's Pension Fund. The employer's rate for 2024/25 was 16.8% of employees' pay (2023/24 16.8%).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2026 is £23.7M. The weighted average duration of the defined benefit obligation for the scheme members is 17 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme & Discretionary Benefits	
	2023/24	2024/25
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
<i>Current Service Cost</i>	28,809	24,989
<i>Past Service Cost</i>	2,860	449
<i>Financing and Investment Income and Expenditure</i>		
<i>Expenditure:</i>		
<i>Net interest expense</i>	3,627	1,592
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	35,296	27,030
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)	(46,744)	21,951
Actuarial gains and losses arising on changes in demographic assumptions	(23,109)	(2,126)
Actuarial gains and losses arising on changes in financial assumptions	(21,106)	(179,836)
Other experience and actuarial adjustments	20,258	(12,849)
Effect of the asset ceiling	0	161,632
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(70,701)	(11,228)
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	(35,296)	(27,030)
Actual amount charged against the General Fund Balance for pensions in the year		
Employers Contributions payable to scheme	26,779	24,801
Retirement benefits payable to pensioners	2,215	2,274

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2025 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 net liability of £22.4M (2023/24 £33.7M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

For 2024/25 the fair value of plan assets is greater than the present value of defined benefit obligation for funded benefits. An asset ceiling has been applied to reduce the net surplus for funded benefits that can be recognised to zero in accordance with the requirements of the Code. The net liability remaining relates to unfunded benefits. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme & Discretionary Benefits	
	2023/24	2024/25
	£000	£000
Present value of the defined benefit obligation:		
LGPS funded benefits	1,181,628	1,037,929
LGPS unfunded benefits	10,394	9,176
Teachers' unfunded pensions	14,850	13,206
Total present value of the defined benefit obligation	1,206,872	1,060,311
Fair value of plan assets	(1,173,217)	(1,199,561)
Sub-total	33,655	(139,250)
Other movements in the liability (asset) - effect of the asset ceiling	0	161,632
Net liability arising from defined benefit obligation	33,655	22,382

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2022. 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 2025.

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

	Local Government Pension Scheme & Discretionary Benefits	
	2023/24	2024/25
	£000	£000
Opening fair value of scheme assets	1,077,569	1,173,217
Interest income	50,606	56,661
Remeasurement gain/(loss)	46,744	(21,951)
Contributions from employer:		
LGPS funded benefits	26,779	24,801
Discretionary benefits	2,215	2,274
Contributions from employees into the scheme	9,935	9,065
Benefits paid:		
LGPS funded benefits	(38,416)	(42,232)
Discretionary benefits	(2,215)	(2,274)
Closing fair value of scheme assets	1,173,217	1,199,561

NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme & Discretionary Benefits	
	<u>2023/24</u>	<u>2024/25</u>
	£000	£000
Opening balance at 1 April	1,175,623	1,206,872
Current service cost	28,809	24,989
Interest cost	54,233	58,253
Contributions from scheme participants	9,935	9,065
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	(23,109)	(2,126)
Actuarial gains/losses arising from changes in financial assumptions	(21,106)	(179,836)
Other	20,258	(12,849)
Past service cost	2,860	449
Benefits paid:		
LGPS funded benefits	(38,416)	(42,232)
Discretionary benefits	(2,215)	(2,274)
Closing balance at 31 March	1,206,872	1,060,311

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 Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2022. 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	
	<u>2023/24</u>	<u>2024/25</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.1	22.0
Women	24.7	24.7
Longevity at 65 for future pensioners:		
Men	22.6	22.5
Women	25.7	25.6
CPI inflation	2.8%	2.8%
Rate of increase in salaries	3.8%	3.8%
Rate of increase in pensions	2.8%	2.8%
Rate for discounting scheme liabilities	4.9%	5.8%

f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by Hampshire County Council, the Fund administering authority) is shown in the table below.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2023/24</u>	<u>2023/24</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2024/25</u>	<u>2024/25</u>
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	38.00	8.00	46.00	33.30	8.90	42.20
Property	-	7.00	7.00	-	9.10	9.10
Government Bonds	15.00	-	15.00	14.60	-	14.60
Corporate Bonds	5.00	5.00	10.00	4.50	4.70	9.20
Multi Asset Credit	-	-	-	-	-	-
Cash	1.00	-	1.00	1.90	-	1.90
Other	5.00	16.00	21.00	9.20	13.80	23.00
Total assets	64.00	36.00	100.00	63.50	36.50	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		
	Approximate % increase to Employer Liability	Approximate monetary amount
	%	£000
0.1% decrease in Real Discount Rate	2.0%	17,450
0.1% increase in Salary Increase Rate	0.0%	407
0.1% increase in Pension Increase Rate (CPI)	2.0%	17,538
1 year increase in member life expectancy	4.0%	42,412

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 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) Deprivation of Liberty Safeguards

The Mental Capacity Act 2005 provides a statutory framework for acting and making decisions on behalf of people who lack the capacity to make those decisions for themselves. These are known as Deprivation of Liberty Safeguards (DoLS). The Council may face compensation claims if DoLS applications are not properly authorised. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

b) 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

An initial levy of 15% of previously paid claims, less the first £0.050M, 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 £0.347M 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 £0.25M (2023/24 £0.27M), 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 31 March 2025, the Council's outstanding potential liability under the SoA stood at £1.446M (2023/24 £1.390M), less the £0.361M payment already made under the scheme. There was £0.016M (2023/24 £0.069M) in outstanding claim reserves.

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 2024/25 there were no material arrangements that required the production of group accounts. The council previously had a limited liability partnership with PSP Facilitating Limited. The company was dissolved in September 2024.

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

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

<u>2023/24</u>		<u>2024/25</u>	
£000		£000	
(38,792)	Balance Brought Forward	(32,924)	
(24,786)	Amounts Received in Year	(18,915)	
30,654	Amounts Applied to Finance Capital in year	26,493	
<u>(32,924)</u>	Balance Carried forward	<u>(25,346)</u>	

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u>		<u>2024/25</u>	
£000		£000	£000
	Grants		
	Department for Education		
0	Basic Need Grant	(2,866)	
(2,818)	School Condition Allocation	(2,902)	
(1,798)	Schools Devolved Formula Grant	(672)	
(4,424)	High Needs Provision Capital Allocation	(981)	
(441)	Other	(990)	
(9,481)			(8,411)
(4,384)	Department for Levelling Up, Housing and Communities		(5,334)
(391)	Department for Business, Energy & Industrial Strategy		(285)
(26,555)	Department for Transport		(22,743)
(42)	Homes & Communities Agency		0
(70)	Environment Agency		(148)
(27)	British Library		(3)
(112)	Arts Council		(1,226)
0	Forestry Commission		(47)
(93)	Other		(313)
(41,155)			(38,510)
(5,645)	Contributions		(3,206)
(46,800)	Total		(41,716)
(29,307)	Credited to Capital Grants and Contributions CIES		(28,151)
(17,493)	Credited to Cost of Services		(13,565)
(46,800)	Total		(41,716)

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2023/24</u> £000		<u>2024/25</u> £000
	General Government Grants	
(16,055)	Section 31 Business Rates Grants	(18,305)
(12,880)	Revenue Support Grant	(13,733)
(5,808)	Business Rates Retention Tariff/Top-Up	(6,097)
(4,333)	Other Grants less than £1M	(2,718)
<u>(39,076)</u>		<u>(40,853)</u>
	Credited to Services	
(161,385)	Dedicated Schools Grant (DSG)	(178,681)
(61,733)	Housing Benefit Grant	(59,515)
(18,468)	Social Care Grant	(24,303)
(18,535)	Public Health Grant	(19,219)
(12,222)	Pupil Premium (including PE & Sports and Recovery Premiums)	(11,118)
(10,705)	Improved Better Care Fund	(10,705)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(4,285)	Market Sustainability and Improvement Fund	(4,854)
(4,405)	Household Support Fund	(4,325)
(3,606)	Homelessness and Rough Sleeping Grants	(3,808)
	Core Schools Budget Grant	(3,059)
(3,542)	Mainstream Schools Additional Grant	0
	Teachers Pensions Grant	(2,939)
(2,690)	Unaccompanied Asylum Seeking Children	(2,810)
(1,501)	Adult Social Care Discharge Fund	(2,501)
(1,357)	Teachers Pay Additional Grant	(2,315)
(1,067)	Supplementary Substance Misuse Treatment and Recovery Grant	(1,885)
(1,066)	Supporting Families Grant	(1,426)
(1,274)	Universal Infant Free School Meals	(1,346)
(1,244)	School Holiday Activities and Food Programme	(1,190)
(1,401)	Family Hubs Grant	(1,146)
	UK Shared Prosperity Fund	(1,141)
(1,206)	Early Years Supplementary Grant	0
(16,053)	Other Grants less than £1M	(15,644)
<u>(333,604)</u>		<u>(359,789)</u>
	Not included in the Comprehensive Income and Expenditure Statement	
(1)	Other Grants less than £1M	0
<u>(1)</u>		<u>0</u>

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 £0.4M per annum.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>31 March</u> <u>2024</u> <u>£000</u>	<u>31 March</u> <u>2025</u> <u>£000</u>
12,734 Balance Brought Forward	12,371
(363) Principal written down	(364)
<u><u>12,371</u></u>	<u><u>12,007</u></u>

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 Hampshire and Isle of Wight Integrated Care Board (ICB) 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 ICB 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.

The Better Care Fund (BCF) pooled budget: is one of the Government's vehicles for driving health and social care integration. Integrated Care Boards (ICB's) and Local Government are required to agree a joint plan which is owned by the Health and Wellbeing Board (HWB). The plans use pooled budget arrangements to support integration governed under section 75 of the NHS Act (2006).

The table below shows pooled funds with income/expenditure in excess of £2M.

<u>2023/24</u>				<u>2024/25</u>			
<u>LBHU</u>		<u>R&R</u>				<u>BCF</u>	
<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>			<u>£000</u>	<u>%</u>
0		0		Better Care Fund		0	
(1,176)	49%	(6,636)	35%	Funding - Contributions / Grants		(1,176)	49%
(1,224)	51%	(12,398)	65%	Brought Forward		(15,948)	39%
(2,400)		(19,034)		Southampton City Council		(1,224)	51%
2,400		19,034		Integrated Care Board		(25,352)	61%
<u><u>0</u></u>		<u><u>0</u></u>		Expenditure		(2,400)	
				Carried Forward		2,400	
						<u><u>0</u></u>	

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	£000	£000	£000	
Aldridge Bequest	(15)	0	(283)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(4)	0	(174)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	(44)	Works of art
LC Smith Bequest	(2)	0	(39)	Merchant Navy's Memorial maintenance help in Holyrood Church
Jean Rattray	0	0	(63)	Capital Mental Health Projects
Whittaker Bequest	(52)	0	(52)	Works of art for Southampton City Art Gallery
Minor Trust Funds consisting of:				
Ida Bany Bequest	(1)	1	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchant Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(5)	Bitterne Park School special annual prizes
Southampton Archives Bequest	0	0	(5)	Preserve historical records
Trust Funds Total	(74)	1	(682)	
Wessex Slaughterhouse Board	(4)	0	(97)	Pensions to former employees
Total	(78)	1	(779)	

OTHER ACCOUNTING STATEMENTS 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 and between the HRA and General Fund.

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

<u>2023/24</u>			<u>2024/25</u>
£000	<u>Expenditure</u>	Notes	£000
22,251	Repairs and maintenance		27,027
27,836	Supervision and management		29,169
7,615	Rents, rates, taxes and other charges		8,937
173,359	Depreciation, impairment and revaluation (gains) of non-current assets		(35,842)
82	Debt management costs		94
1,056	Movement in the allowance for bad debts	1	1,279
	Sums directed by the secretary of state that are expenditure in accordance with the Code		6,925
232,199	Total Expenditure		37,589
	<u>Income</u>		
(74,819)	Dwellings rent		(80,280)
(1,247)	Non-dwelling rents		(1,304)
(10,776)	Charges for services & facilities		(12,325)
(2,222)	Contributions towards expenditure		(2,094)
(89,064)	Total Income		(96,003)
143,135	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement		(58,414)
518	HRA services' share of Corporate and Democratic Core		518
143,653	Net Expenditure/(Income) for HRA Services		(57,896)
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(4,026)	(Gain) or loss on the sale of HRA non-current assets		(1,781)
(70)	Capital Receipts not matched by Disposal of Assets		(22)
(2,212)	Investment Property Revaluation Movements		656
5,766	Interest payable and similar charges		6,936
(105)	Interest and investment income		(125)
696	Net interest on the net defined benefit liability		331
(2,894)	Capital grants and contributions receivable		(1,652)
140,808	(Surplus) or Deficit for the Year on HRA Services		(53,553)

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

<u>2023/24</u> £000		<u>2024/25</u> £000	£000
(2,000)	Opening Balance		(2,590)
	Movement in Year		
140,808	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(53,553)	
(141,398)	Adjustments between accounting basis and funding basis under statute	53,053	
<u>(590)</u>	Transfer to / (from) reserves		<u>(500)</u>
<u>(2,590)</u>	Closing HRA Balance		<u>(3,090)</u>

Note to the Statement of Movement on the Housing Revenue Account

<u>2023/24</u> £000		<u>2024/25</u> £000
	Analysis of adjustments between accounting basis and funding basis under statute	
(173,359)	Depreciation, impairment and revaluation gains or (losses) of non-current assets	35,842
4,096	Gain or (loss) on the sale of HRA non-current assets	1,803
2,212	Impairment and revaluation of investment properties	(656)
(1,209)	HRA share of contribution to or from the pension reserve	9
17,967	Transfer to Major Repairs Reserve	20,817
2,894	Capital grants and contributions applied	1,652
6,001	Capital expenditure funded by the HRA	511
	Sums directed by the secretary of state that are expenditure in accordance with the Code	(6,925)
<u>(141,398)</u>	Net Adjustment	<u>53,053</u>

1. Council House Rents

At 31 March 2025, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 8.16% (31 March 2024 7.80%). The total arrears were £12.74M (31 March 2024 £11.12M). Rents written off during the year amounted to £0.53M (2023/24 £0.70M). The amount set aside for doubtful debts was £7.20M (31 March 2024 £6.65M).

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

2. Housing Stock

As at the 31 March 2025, the Council housing stock was made up of the following types of property:

<u>Number of Properties Held</u>	
31 March 2024	31 March 2025
4,810 Houses	4,792
11,023 Flats	11,030
16 Bungalows	19
<u>15,849</u>	<u>15,841</u>

The Balance Sheet value of HRA assets was as follows:

<u>Balance Sheet Value of HRA Assets</u>	
<u>2023/24</u> £000	<u>2024/25</u> £000
<i>Property Plant & Equipment</i>	
625,785 Dwellings	704,611
10,472 Other Operational Property	12,747
7,154 Assets Under Construction	8,693
<u>643,411</u>	<u>726,051</u>
<i>Other Property</i>	
8,152 Investment Property	7,496
1,260 Intangibles	822
416 Surplus Assets	415
<u>9,828</u>	<u>8,733</u>
<u>653,239</u>	<u>734,784</u>

The vacant possession value of Council Dwellings at 31 March 2025 was £2,135M (£2,016M as at 1 April 2023) 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 2025.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There were no impairments in 2023/24 or 2024/25.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2023/24</u>	<u>Depreciation</u>	<u>2024/25</u>
£000		£000
839	Balance at 1 April	1,227
(17,582)	Depreciation written off in year	(20,148)
17,967	Depreciation during year	20,816
<u>1,224</u>	Balance as at 31 March	<u>1,895</u>

4. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2023/24</u>		<u>2024/25</u>
£000		£000
35,306	Housing Stock	43,944
1,361	Housing Stock Under Construction	1,539
101	Intangible assets	44
<u>36,768</u>	Total Capital Expenditure	<u>45,527</u>

<u>Capital Expenditure Source of Finance</u>		
£000		£000
2,737	Capital Receipts	6,405
2,203	Grants	1,095
17,967	Transfer from Major Repairs Reserve	20,817
691	Contributions	557
6,001	Direct Revenue Funding	511
7,169	Unsupported Borrowing	16,142
<u>36,768</u>	Total Financing	<u>45,527</u>

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 changed to allow local authorities to retain receipts that exceed a predetermined set level for the delivery of local housing through new developments or acquisitions replace stock on a one for one basis. Receipts are still subject to pooling arrangements however since 2023/24 the Treasury share of £1.160M can be retained and used to fund new build affordable housing projects. The 2024 autumn budget by the Government confirmed that this policy will continue in future financial years.

In addition to this, increased flexibilities on the use of Right To Buy receipts were announced on 30 July 2024 for the two financial years 2024/25 and 2025/26:

- The maximum permitted contribution from RTB receipts to replacement affordable housing has increased from 50% to 100%.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

- RTB receipts will be permitted to be used with section 106 contributions.
- The cap on the percentage of replacements delivered as acquisitions each year (currently 50%) has been lifted.

In 2024/25 the Council received £3.32M (2023/24 £3.44M) from right to buy sales that can be utilised on new build affordable housing projects.

<u>2023/24</u>	Sale of Assets	<u>2024/25</u>
£000		£000
5,671	Council Housing	3,411
70	Land, Buildings & Equipment	22
<u>5,741</u>		<u>3,433</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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 (business) 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 2025				
2023/24			2024/25	
£000	Council Tax		Notes	£000
	Income			
(138,583)	Income due from Council Tax Payers			(147,284)
	Transfers (to)/ from the General Fund			
(718)	- Hardship Relief			(225)
0	- Transitional Relief			0
(718)				(225)
(139,301)				(147,509)
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax			
(261)	- Southampton City Council			(987)
(35)	- Hampshire and IOW Police & Crime Commissioner			(144)
(12)	- Hampshire and IOW Fire & Rescue Authority			(46)
(308)				(1,177)
(139,609)	Total Council Tax Income			(148,686)
	Expenditure			
	Precepts			
115,772	- Southampton City Council Precept			121,430
16,862	- Hampshire and IOW Police & Crime Commissioner Precept			17,515
5,393	- Hampshire and IOW Fire & Rescue Authority Precept			5,549
138,027		2		144,494
	Impairment of debts			
2,957	- Write offs			1,768
(1,040)	- Allowance for impairment			1,838
1,917				3,606
139,944	Total Council Tax Expenditure			148,100
335	Council Tax - Deficit / (Surplus) for the Year	4		(586)
900	Council Tax - Deficit / (Surplus) Brought Forward	4		1,235
1,235	Council Tax Deficit / (Surplus) Carried Forward	4		649
	Business Rates			
	Income			
(93,435)	Income Collectable from Business Ratepayers	3		(106,939)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR			
1,690	- Southampton City Council			3,238
1,724	- Central Government - MHCLG			3,304
34	- Hampshire and IOW Fire & Rescue Authority			66
3,448				6,608
(89,987)	Total Business Rates Income			(100,331)
	Expenditure			
(6,121)	- Payment to MHCLG - Transitional Arrangements			(1,554)
48,419	- Payment to MHCLG - Business Rate Retention			52,254
47,450	- SCC Business Rates Retention			51,208
968	- Hampshire and IOW Fire & Rescue Authority Precept			1,045
125	- Interest on Overpayments			268
292	- Costs of Collection			292
4	- Other transfers to the General Fund - Freeport disregard			126
91,137				103,639
	Impairment of debts/appeals			
2,499	- Write offs			454
(1,098)	- Allowance for impairment			996
2,230	- Appeals provision			(1,484)
3,631				(34)
94,768	Total Business Rates Expenditure			103,605
4,781	Business Rates (Surplus) / Deficit For the Year	4		3,274
(13,203)	Business Rates - Deficit / (Surplus) Brought Forward	4		(8,422)
(8,422)	Business Rates Deficit / (Surplus) Carried Forward	4		(5,148)
(7,187)	Total Collection Fund (Surplus) / Deficit	4		(4,499)

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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 & Crime Commissioner for Hampshire and the Isle of Wight and the Hampshire and Isle of Wight Fire & Rescue Authority.

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2024/25 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR was 49% with the remainder paid to Central Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (the same proportions applied for 2023/24). 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 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 2024/25 was 68,183 (2023/24 68,078). The tax base for 2024/25 was calculated as follows:

<u>Council Tax Base</u>			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Disabled	48.0	5/9	26.7
Band A	22,153.7	6/9	14,769.1
Band B	27,900.6	7/9	21,700.5
Band C	19,622.2	8/9	17,442.0
Band D	8,367.3	9/9	8,367.3
Band E	2,742.8	11/9	3,352.3
Band F	1,277.7	13/9	1,845.6
Band G	401.3	15/9	668.8
Band H	5.1	18/9	10.2
	<u>82,518.7</u>		<u>68,182.5</u>

Taking the total Band D equivalents of 68,183 (2023/24 68,078) and multiplying this by the standard Council Tax of £2,156.99 (2023/24 £2,058.36) gives a total estimated income from taxpayers of £147.1M (2023/24 £140.1M). 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

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

98.25%, giving a net Council Tax Base of 66,989. Multiplying this by the standard Council Tax of £2,156.99 gives the total precepts on the Collection Fund of £144.5M (67,057 multiplied by £2,058.36 - £138.0M 2023/24).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. 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. In addition, 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 2024/25 estimated NDR income of approximately £104.5M (2023/24 £96.8M), £51.2M (2023/24 £47.4M) retained by the Council, £1.0M (2023/24 £1.0M) payable to Hampshire and Isle of Wight Fire & Rescue Authority and £52.3M payable to Central Government (2023/24 £48.4M). The Rateable Value on 31 March 2025 was £270.8M (2023/24 £271.9M). The Small Business Rate Multiplier for the year was 49.9p in the £ (2023/24 49.9p) and the Standard Business Rate Multiplier was 54.6p in the £ (2023/24 51.2p), giving gross rates before reliefs of £144.9M (2023/24 £135.7M).

4. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is £4.5M (2023/24 £7.2M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

<u>Analysis of Collection Fund Balance</u>						
	<u>In Year</u>			<u>Cumulative</u>		
	<u>Council Tax (Surplus)/ Deficit</u>	<u>Business Rates (Surplus)/ Deficit</u>	<u>Total</u>	<u>Council Tax (Surplus)/ Deficit</u>	<u>Business Rates (Surplus)/ Deficit</u>	<u>Total</u>
	£000	£000	£000	£000	£000	£000
Central Government		1,637	1,637		(2,574)	(2,574)
Southampton City Council	(491)	1,605	1,114	545	(2,522)	(1,977)
Hampshire & IOW FRA	(23)	32	9	25	(52)	(27)
Hampshire & IOW PCC	(72)		(72)	79		79
Balance as at 31 March	(586)	3,274	2,688	649	(5,148)	(4,499)

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. Amortised Cost

A way of measuring financial instruments that ignores changes in fair value.

3. Budget

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

4. Capital 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. Capitalisation Direction

A capitalisation direction allows local authorities to treat certain revenue expenditure as capital expenditure and be funded by borrowing or from capital receipts instead of from the revenue budget.

6. Capital Expenditure

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

7. Capital Receipts

The proceeds from the sale of capital assets.

8. Community Assets

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

9. 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. Current Value

The measurement bases for property, plant and equipment, reflecting the economic environment for the service the item is supporting.

13. Debtor

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

GLOSSARY

14. Depreciation

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

15. Effective Interest Rate (EIR)

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

16. Equal Pay

The Equality Act 2010 ensures equal pay for men and women performing equal work or work of equal value.

17. 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.

18. 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.

19. 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. Only applies when acting as a lessor.

20. Financial Instrument

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

21. 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.

22. 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.

23. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

24. Government Grants

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

25. Heritage Assets

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

GLOSSARY

26. Housing Revenue Account

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

27. Impairment

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

28. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

29. International Financial Reporting 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).

30. Lease

A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time.

31. Long Term Investments

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

32. Materiality

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, could reasonably be expected to influence decisions that primary users make on the basis of the Financial Statements.

33. Minimum Revenue Provision (MRP)

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

34. Money Market Funds

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

35. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by the Council as the billing authority and paid in specified shares to Central Government, Southampton City Council and Hampshire and Isle of Wight Fire & Rescue Authority.

36. 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.

37. Net Expenditure

Total expenditure for a service less directly related income.

38. 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.

GLOSSARY

39. 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.

40. 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.

41. Post Balance Sheet Events

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

42. Prepayments

Payments made by the Council in advance of goods or services being supplied.

43. 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 Right of Use Assets.

44. Property, Plant and Equipment

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

45. Provision

A liability of the Council where there is uncertainty about when it will be settled and/or how much the Council will have to pay.

46. 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.

47. Receipts in Advance

Payments taken by the Council in advance of goods or services being supplied to recipients.

46. Reserves

The balances in the Balance Sheet that show variously the revenue and capital resources available to support the provision of services by the Council, the cumulative effect of statutory adjustments to manage the availability of those resources for particular financial years, and balances of revaluation gains and losses on assets that have yet to be realised.

48. Revaluation Reserve

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

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

Expenditure which may properly be deferred, but which does not result in a tangible asset. An

GLOSSARY

example of revenue expenditure funded from capital under statute is expenditure on improvement grants.

50. Revenue Expenditure / Income

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

51. Right of Use Asset

A right of use asset represents a lessee's right to use a leased asset over the duration of a lease agreement.

52. Stock

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.

53. Trade Payables

The amounts that the Council owes for goods and services that it has received in the course of its normal activities but which have yet to be paid for.

54. Trade Receivables

The amounts that the Council is owed for goods and services that it has provided in the course of its normal activities but which have yet to be paid for.

55. Treasury Management

The management of the Council's debt and investment of surplus funds.

56. Useful Life

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

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 (Governance Framework)' (CIPFA and Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Director of Legal and Governance
Southampton City Council
Civic Centre
Southampton
SO14 7LY

This statement explains how the council has complied with the local code and 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; and
- in a timely, inclusive, open, honest, and accountable manner.

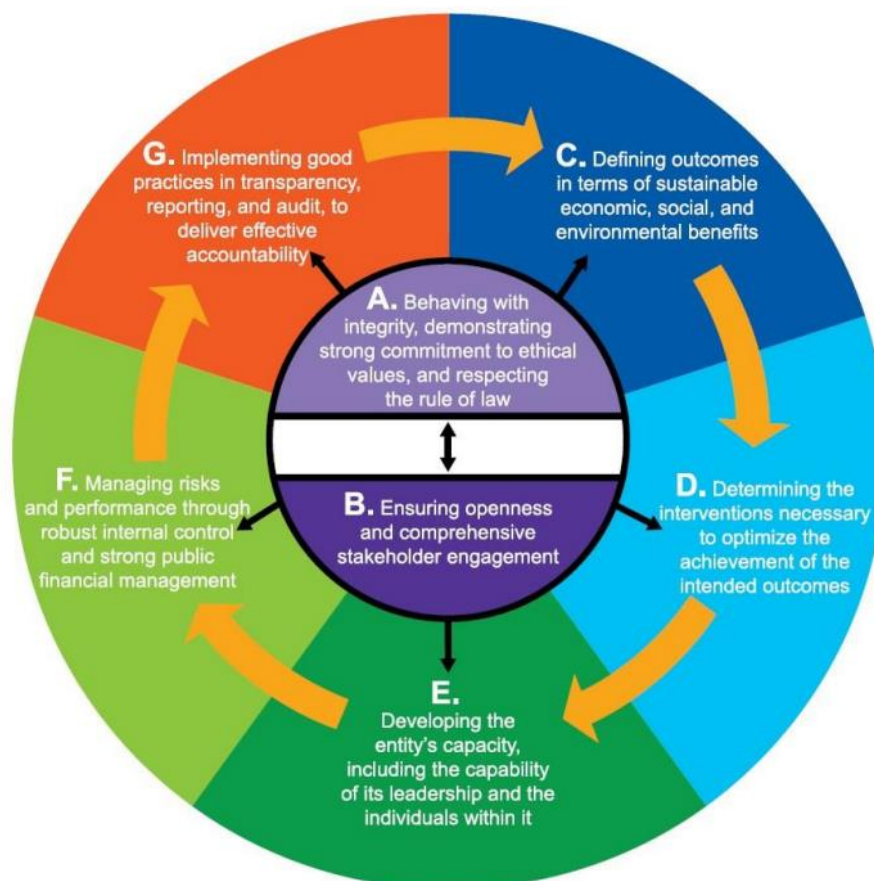
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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 2025 and up to the date of approval of the statement of accounts.

The Governance Framework

The diagram below, taken from the International Framework: Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.



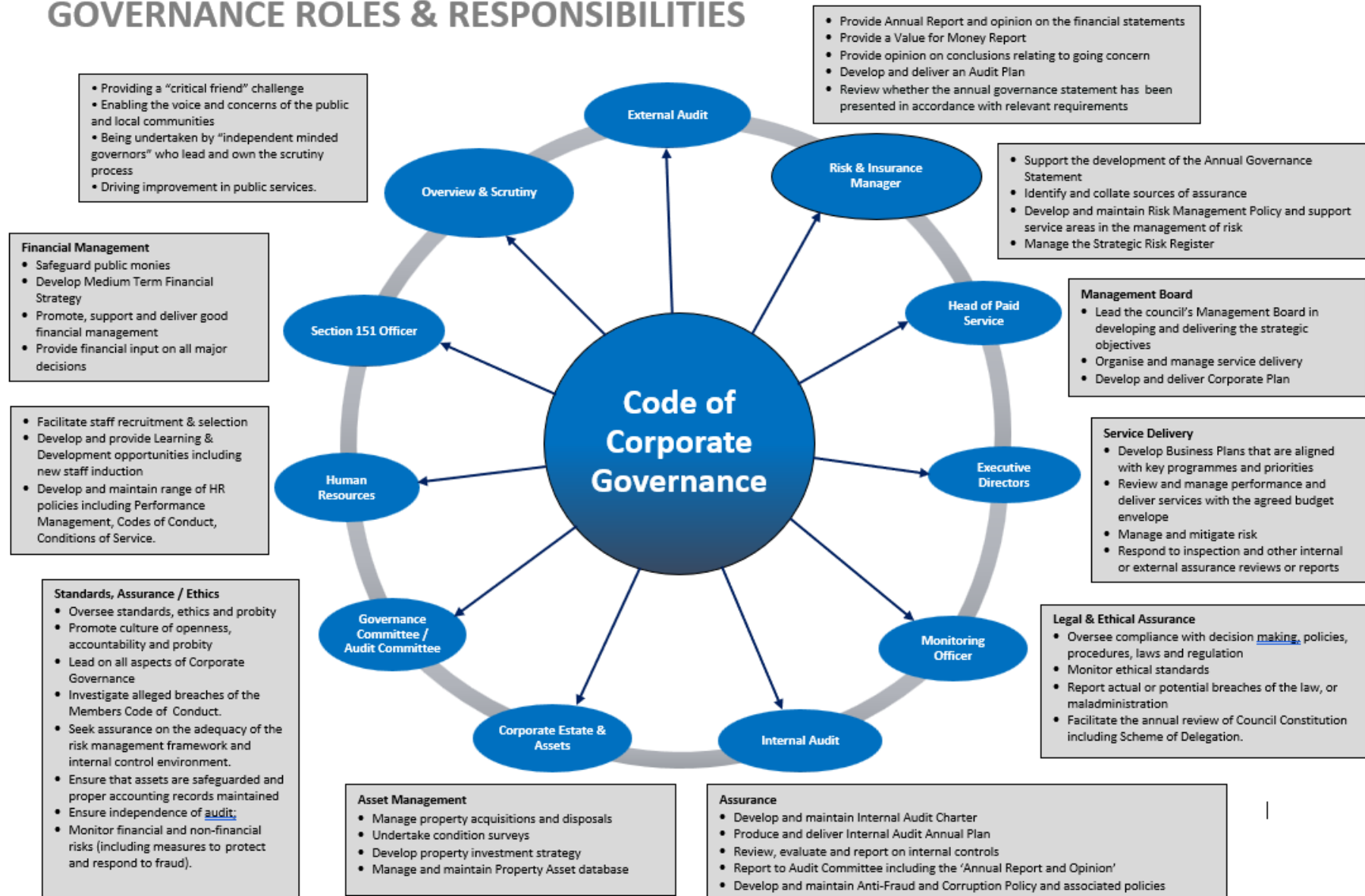
The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the “Delivering Good Governance in Local Government: Framework (Governance Framework) (CIPFA and Solace, 2016)”.

The council's governance framework comprises:

- The council's **Local Code of Corporate Governance** (which was reviewed and refreshed in early 2025).
- A suite of governance and strategic policies and documents.
- Its systems and processes of governance.
- The council's culture and people that direct and control the authority and its activities and through which it engages with the community and other stakeholders.

ANNUAL GOVERNANCE STATEMENT - DRAFT

GOVERNANCE ROLES & RESPONSIBILITIES



ANNUAL GOVERNANCE STATEMENT - DRAFT

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

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

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 reviewed on an annual basis with any recommended changes being presented by the Monitoring Officer to the council's Governance Committee to consider and recommend, and then to Full Council for review and adoption.

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:

<http://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. On an annual basis the council's Governance Committee receives a report from the 'Monitoring Officer' on the 'Members' Code of Conduct. There is also 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.

A '**Whistleblowing (Duty to Act) Policy**' 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 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**' that applies to any actual or suspected internal or external fraud, bribery, corruption, and dishonest dealing that involve the council and or its Member's and staff. It also applies to contractors, suppliers, partners, agents, intermediaries, and service users. The council also has in place an '**Anti-Money Laundering policy**' which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

Annual refreshers of essential elements of the anti-fraud and corruption strategy, bribery act and anti-money laundering policy are part of the mandatory learning requirements for staff, as well as gifts and hospitality declaration essentials, which is monitored through the employee annual performance & development review process.

The council also participates in the Cabinet Office's **National Fraud Initiative** which is a data matching exercise to assist in the prevention and detection of fraud. The council is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014 and does not require the consent of the individuals concerned under data protection legislation or the UK GDPR.

Investigations and special reviews into suspected fraud or irregularities are overseen by an '**Investigation Steering Panel**', comprising the Monitoring Officer (Director of Legal and Governance), Chief Internal Auditor and the Section 151 Officer (Executive Director Enabling Services). In the event that the concerns relate to members of staff or agency workers the Director of People and Organisational Culture will also be invited. Equally there is a Statutory Officers Group comprising of the Head of Paid

ANNUAL GOVERNANCE STATEMENT - DRAFT

Service, S151 Officer, Monitoring Officer and Chief Internal Auditor, where matters of concern are discussed and next steps decided upon.

The council is committed to providing excellent customer service and takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. Each year the council undertakes a review of complaints processes to ensure they remain fit for purpose and in line with revised Ombudsman Guidance and case law / precedent. Changes to the Corporate Complaints Policy were made in 2024 to ensure that the complaints policy met emerging guidance and changes to recommended best practice published by the Local Government & Social Care Ombudsman and Housing Ombudsman.

There is a '**Corporate Services and Adult Social Care Complaints Policy**' and a separate '**Children's Services Complaint Procedure**' published on the council's website which explain how to make a complaint and how it will be dealt with. Complaints relating to the conduct of Members are dealt with under the **Members' Code of Conduct**.

During 2024/25 the Council received a small number of 'business as usual' Member Conduct complaints, none of which made it past published assessment procedure tests. There were, however, 2 complaints which were assessed as meriting local resolution or further investigation (broadly related to the same incident). Local resolution was proposed but rejected by all parties to the complaints and as such, in accordance with our published procedures, they were sent for investigation. Investigations are generally carried out by the Monitoring Officer or Deputy Monitoring Officer unless there is an overriding reason to conduct an external investigation. In this case, the complainant was the Head of Paid Service. In order to maintain public confidence in the transparency of the investigation process, and again – in line with national best practice – the matter was allocated to an investigator external to the organisation in order to ensure that there could be no perception of bias or undue influence on officers answerable as employees to the Head of Paid Service and in order to protect all parties to the complaint in ensuring a fair and independent assessment of the merits. Following lengthy investigation, one complaint was not upheld and remains private and confidential to the parties in line with our procedures. The second complaint which related to the content of a social media post by an elected member was upheld. A further opportunity for voluntary resolution as an alternative to formal hearing procedures was offered and agreed to by all parties (including the complainant and the subject member). Resolution agreed included removal of the offending social media post and written apology for the distress caused. That matter is the subject of a more detailed report to the council's Governance Committee on 14th April 2025. The report sets out the details of the matters complained of, the resolution agreed, and a number of recommendations and learning from the complaint to be taken forward as part of the council's wider Governance Review programmed for 2025/26. The report is open and public and will be available on the council's website for a period of not less than 6 years.

On an annual basis the Head of Legal Partnerships presents a combined report to the council's Cabinet on both Local Government and Social Care Ombudsman Complaints and an Annual Review of internal Council Complaints.

The council's '**Social Value and Green City Procurement Policy**' explains the council's values and approach to ethical and green procurement and what it expects and requires of its supply chain. It aims to ensure that the council's suppliers, bidders and other stakeholders are aware of the council's commitment to long-term social, ethical, environmental and economic sustainability and how they are expected and required to contribute.

The council also has in place information to staff regarding **Modern Slavery and Human Trafficking Statement**, how to spot the signs and how to report concerns. In addition, Modern Slavery is one of the councils' mandatory e-learning training modules for staff.

Principle 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

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arrangements and are actively sought. The **council's website includes a 'Have your say' section** which provides information to residents, customers, and other stakeholders on how they can 'have their say' on various issues, including via:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Southampton City Council runs a broad **City Survey** every few years to collect resident views on a range of topics. It provides an opportunity to get views of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. Surveys have been conducted in 2014, 2016, 2018 and 2020 by telephone surveying. For the most recent survey in 2024, a different methodology used a combination of online and paper surveys. Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between November 2024 and January 2025 and included questions on:

- What would make the biggest difference to you in Southampton?
- Local public services
- Communities and local area
- Education and skills
- Work and job satisfaction
- Household finances and cost of living
- Housing
- Transport
- Environment
- Health and Wellbeing
- Visiting Southampton

The results from previous Southampton City Surveys can be downloaded from the Southampton Data Observatory. The analysis of the most recent 2024 City Survey is currently being finalised and a report of the findings will also be available on the Southampton Data Observatory in due course.

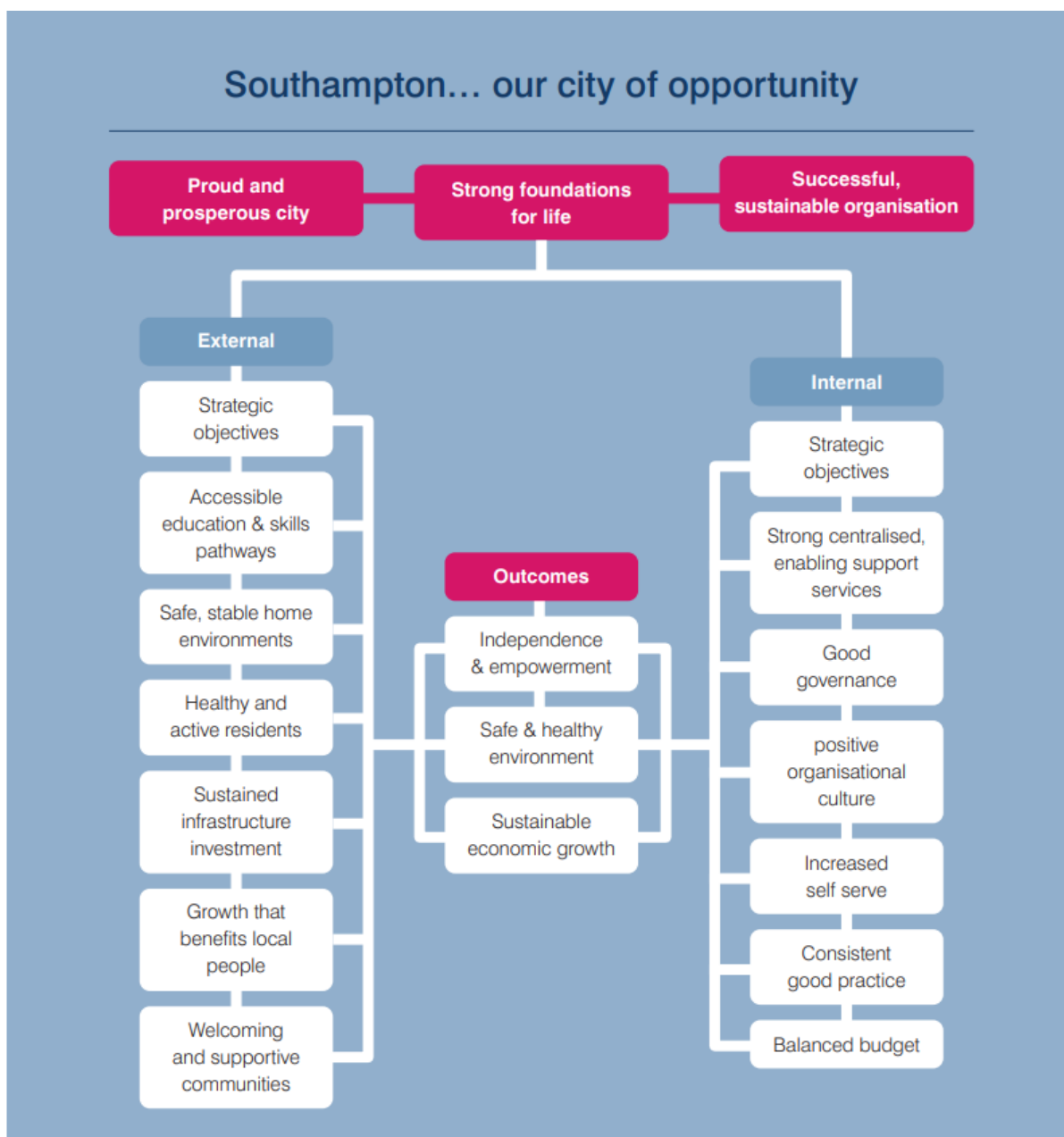
The council has in place a **'People's Panel'**, which is open to any resident over the age of 18 to join, and comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. There are currently around 9000 members of the People's Panel. Run by Southampton City Council, the People's Panel has been active since 2015 and the results from our surveys have been used to inform a number of decisions and service changes. To understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity, and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, with the vision being for Southampton to be recognised as a Child Friendly City (CFC). The programme, which is based around the values of 'Being inclusive', 'Listening' and 'Learning', aims to create a city where all children have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

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

The council has in place a 2022-30 **Corporate Plan** which was updated in March 2024 to reflect the financial pressures facing the council and the strategy to achieve financial stability through transformation and economic growth. The core goals within the Corporate Plan were reviewed and refined, with outcomes that focussed on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives were developed that provided more specifics around areas of focus with the business planning framework intended to ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals. The updated Corporate Plan was supported by the introduction of the new **Adapt|Grow|Thrive transformation programme in July 2024** which has driven significant progress delivering financial savings and service improvement.



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A quarterly **Corporate Performance reporting** mechanism was introduced for the council's cabinet in 2024-25. This report covered key performance indicators (KPIs) relating to the Corporate Plan and service business plans however it is being further developed on an iterative basis and, in time, will align to ensure it is reflective of the aligned strategic outcomes in the City Plan and Corporate Plan (the latter includes focus on key strategies). Work is being undertaken ahead of the 2025/26 year to review and refine the SCC performance framework approach, and the performance measures reported at different levels across the organisation, as well as ensure a consistent approach to setting local targets and action tracking/impacts. Improving and evolving our performance monitoring and reporting will ensure that approach is kept relevant to changing organisational needs.

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the **Southampton City Strategy** (2015-2025) which is a partnership strategy that sets out the vision for the whole city. The strategy was developed in partnership with 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

At a sub-regional level there is currently a triumvirate of key strategic organisations, the **Partnership for South Hampshire ('PfSH')**, the **Solent Growth Partnership ('SGP')** and **Solent Transport**, which manage the policy agenda in the sub-region.

The **PfSH** is a partnership of twelve local authorities around the Solent, including Southampton City Council, which aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PfSH brings the partner organisations together at both a political and managerial level and is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PfSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PfSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.

The SGP is a local authority partnership between Isle of Wight, Portsmouth, and Southampton Councils, established to adopt the previously devolved responsibilities of the 'Solent Local Enterprise Partnership ('the LEP')'. The partners have recently created a new Solent Growth and Prosperity Strategy which sets out its ambitions, priorities, and approaches to facilitating the growth of the local economy to create stability and prosperity. This is a joint strategy, which embodies the strategic alliance across the three upper-tier local authorities. All three upper tier Solent Authorities have also been accepted on the Devolution Priority Programme, a major step towards establishing the new Mayoral Strategic Authority for the region with elections for the new Mayor to be held in May 2026.

Solent Transport is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the Southeast. The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence, and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders, and other agencies to deliver transport infrastructure, networks, and systems crucial to keep the region moving and generate economic growth, wealth, and sustainability. From 1st April 2025 Hampshire County Council has however taken the decision to withdraw from Solent Transport.

The council is a Member of the **Solent Freeport consortium** encompasses Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff

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flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

Following the general election in July 2024 regions were requested by the Ministry of Housing Communities and Local Government (MHCLG) to submit an expression of interest to create a Mayoral Combined County Authority. The government's English Devolution White Paper published in December 2024 introduced a new Devolution Priority Programme (DPP) to fast-track its ambition to establish Strategic Authorities across the whole of England. In February 2025 the Government confirmed Hampshire and the Solent's participation in the Devolution Priority Programme and launched a public consultation on their proposal to establish a Mayoral Combined County Authority across Southampton, Hampshire, Portsmouth and Isle of Wight. Following the consultation, the Secretary of State will consider the responses before deciding whether to establish a Mayoral Combined County Authority for Hampshire and the Solent. If the Secretary of State decides to proceed, provided the constituent councils consent, the necessary secondary legislation will be laid in Parliament. If approved by Parliament, the Combined County Authority would be established in time for the first mayoral election to take place in May 2026. The establishment of a Mayoral Combined County Authority across Southampton, Hampshire, Portsmouth and Isle of Wight would be a major change to regional governance. It will bring significant opportunities for Southampton by devolving funding and responsibilities from central government to a more local level.

The Government white paper also details plans for wider Local Government Reorganisation (LGR) ending two-tier county and district council arrangements by reorganising local government to create new unitary local authorities with populations of around 500,000. Interim unitary proposals were submitted in March 2025 with the deadline for formal proposals being September 2025. Elections for Hampshire and IoW councils in 2025 have been postponed to allow for LGR proposals to be developed. The new Unitaries will go live in April 2028 – depending on capacity, and timelines for devolution in each area. The LGR process will ultimately result in the creation of a new, larger unitary authority covering the current Southampton City Council area and a wider geography.

Against the backdrop of the financial progress the council has made over the past twelve months, the establishment of the Adapt|Grow|Thrive transformation plan, and the impending LGR and the recommendations of a recent Local Government Association (LGA) Corporate Peer Challenge report, the council is developing a new Corporate Plan, building upon previous iterations, to shape the council's priorities ahead of LGR.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a legally compliant **decision-making process** that clearly sets out the actions and accountability in terms of when, how and by whom decisions are taken and where responsibility for decision making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why it is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

In January 2025 the council welcomed the Local Government Association (LGA) to carry out an independent **Corporate Peer Challenge (CPC)**. The CPC process is designed to help councils identify strengths, areas for improvement, and to provide constructive feedback to guide future development. The CPC was carried out by experienced senior officers and councillors from other councils, as well as

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colleagues from the LGA. CPCs normally take place every five years and form a key part of the improvement and assurance framework for local government.

The LGA subsequently provided an in-depth report with the findings of the CPC and setting out 11 recommendations, one of which refers to the need to 'Urgently drive improvements in governance and decision making to solidify the future stability and growth of the organisation with a fast-paced plan that shows clear accountability'. The council has developed a CPC Action Plan to respond to the recommendations which includes an action to 'Streamline the council's governance arrangements including completing the update of the Constitution, improving internal governance processes to reduce duplication and enable agile decision making, and increasing forward planning'.

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 and 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.

In 2022 the Council, through the Local Government Association (LGA), commissioned the **Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review** to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

- The consistency of decision-making systems
- The speed of those systems
- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a small number of decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. The final CfGS report was presented to the council's Governance Committee in November 2022 and following that, a 10-point Action Plan was agreed and incrementally implemented in 2023. The developmental actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIAs (impact assessments) were to be progressed through externally facilitated workshops by CfGS and the LGA. These had to be deferred due to CfGS's work programme being refocussed to support other authorities, however the workshops were undertaken in September 2024 with a further two workshops in January 2025 that were themed to cover:

- Effective Collaboration
- Understanding Member Need
- Improving Information Provision
- Systemic Communication

The outcomes and draft action plan from those workshops will inform the wider Governance Review Action Plan. This further review flows from a more fundamental need to review both corporate governance and the Constitution, which was originally scheduled for the second half of 2024, however it was not able to be commenced until January 2025 with the intention that the overall exercise is completed by May 2025 for the Council 'Annual General Meeting'. As this has progressed the original intentions and workstreams have widened, not least from issues emerging from the cross-party Member led workshops and officer colleagues. This has led to a further consideration of the realistic timescale

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needed to complete the full suite of workstreams and a further commission of CfGS to assist in redrafting the Constitution. Whilst one part relating to the Audit and Governance Committees and the decision to include Independent Members on the Audit Committee was taken to the AGM the timelines have been readjusted to ensure the work is taken to Council by November 2025 at the latest, again with some matters being presented at September Council.

In late March 2025, CfGS completed most of the diagnostic phase. A high-level report with themes, specific recommendations as to revisions to the Constitution itself, member and officer training and development, and a review of pre decision making processes was presented to the Chief Executive, Transformation Board and the relevant Cabinet Member. It has been agreed the revised workstreams and timelines for delivery to Council will take longer than perhaps originally expected as above. Resources to deliver the actions both in the short and longer term are still subject to discussion but, as an example, the continued roll out to colleagues may well form part of the Leadership Programme currently being devised by the Director of People and Culture.

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

The council has in place a **People Strategy** 2025-28 that sets out a high-level vision underpinned by the council's values and priorities. The People Strategy sets out the aim of empowering all of our people to realise their full potential, driving growth, wellbeing, success and prosperity for Southampton.

Our people strategy is aligned to our Medium-Term Financial Strategy, City and Corporate Plans. It is used to inform resource allocation decisions, organisational design and development, and drive positive change, transformation and the delivery of agreed outcomes. These are based on the council's values and will be built around the leadership competencies and behavioural framework of which the seven principles of public life and the Nolan principles underpin these.

The priority outcomes delivered by the People Strategy will be:

- A workforce that is inclusive and reflects our ambitious and diverse city
- Future focused and deliver sustainable growth and provide development opportunities for all
- To be a brilliant employer, promoting Southampton as a great place to work and live
- Empower all colleagues to be brave, creative and collaborative to embrace change and continually improve, with the right tools to do the job
- An organisation making informed decision, using technology and data that enables solutions with purposeful investment
- Putting people, partnerships and relationships at the heart of everything we do
- To connect and reconnect colleagues, working together as One Council, being proud of the difference we collectively make to our residents at SCC
- Support positive delivery of our prevention, health and wellbeing, city and '**adapt | grow | thrive**' transformation plans

The council's People and Organisational Culture Service is open and responsive to constructive challenge and feedback and will be regularly conducting self-audits as part of its commitment to continuous improvement as well as benchmarking itself against other organisations and where possible implement improvements contributing to a higher level of service to our stakeholders.

In respect of Elected Members, a revised internal **Member Induction and Development programme** was delivered that offered a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events, courses and resources are available via our membership with the 'Local Government Association (LGA)' and the 'Local Government Information Unit (LGIU)'. These opportunities range from delivering a masterclass on 'being an effective ward Councillor to portfolio-based learning and leadership development training. The LGA continue to offer coaching and mentoring programmes for newly elected Cabinet Members. Members are routinely asked for feedback which is incorporated as part of the annual review and refresh of the programme. For 2025/2026 the programme will incorporate findings from the recent LGA Corporate Peer Challenge and CfGS reviews, we are committed in offering a

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comprehensive, innovative and wide-ranging suite of learning and development opportunities to support all members in their roles.

The council also has in place a **Workplace Equalities Policy** which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

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

The council's **Audit 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. The Audit Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way. The council has in place a **Risk Management Policy 2022-25** which is intended to assist officers, at all levels, in applying sound risk management principles, practices and judgement across their areas of responsibility. It is also relevant to Members in their capacity as 'decision takers' and the Audit Committee in respect of its responsibility for overseeing the council's risk management processes and arrangements. The Risk Management policy is being reviewed and updated in 2025 to ensure that it remains current and fit for purpose.

A key element of the council's risk management framework is the council's **Strategic Risk Register** which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Management Board. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

In addition to the council's Strategic Risks, it is recognised there are other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. **Directorate Risk Registers** are being developed to capture those significant risks within the service areas that may not be considered as cross-cutting or be of such significance that they would be considered a 'strategic risk'. The risks captured in a 'Directorate Risk Register' would be expected to be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

The Audit Committee currently receives an **Annual Risk Management report** that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months. To provide greater visibility of the council's strategic risks at member level, for 2025/26 the Audit Committee will be provided with a copy of the council's strategic risk on a quarterly basis for consideration and review. Cabinet Members will also be briefed on the strategic risks relevant to their portfolio.

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Internal audit also plays a vital role in advising the council that arrangements in relation to governance, risk management and internal control are in place and operating effectively and provides an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. An Audit Action Tracker has been rolled out across the authority which lists outstanding actions raised in audit reports. The tracker, which includes details on ownership, status, progress and timeframes, provides Senior Managers and Directors with greater visibility and oversight of outstanding actions in their services/directorates and to ensure greater traction in terms of implementation.

Effective financial management is key to managing the delivery of council services. The council's **Medium Term Financial Strategy ('MTFS')** provides the strategic financial framework to financial planning for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, and local factors. It helps the council to plan for these pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. The key overriding aim of the MTFS is therefore to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's key strategic priorities and services. The MTFS is informed by strategic steers from the council's administration in terms of the future vision for the City.

Despite considerable progress during 2023/24 in identifying measures to reduce expenditure and identify savings, a shortfall remained between the predicted level of spend and the council's funding available. The budget gap for 2024/25 of £39.3M was closed with the use of Exceptional Financial Support (EFS). Under EFS the council can use capital resources (capital receipts and borrowing) to fund revenue expenditure up to a limit agreed with central government. Without this support the council would almost certainly have been facing a Section 114 notice.

For 2024/25 the focus has been to address the budget deficit through a combination of efficiency savings across council services and the development and delivery of a transformation programme to put the council back on a sounder financial footing. The comprehensive Transformation Programme entitled '**adapt | grow | thrive**' is aimed at addressing the structural budget deficit and modernising service delivery. The transformation programme is the primary vehicle for generating savings over the medium term to balance the budget and ensure financial sustainability. The programme is expected to generate £34.5M of savings in 2025/26 rising to £50.8M by 2028/29.

In addition, following the Chartered Institute of Public Finance and Accountancy (CIPFA) review of the council's resilience and financial management in 2023, progress has been made in implementing CIPFA's recommendations, in both stabilising the council's financial position and improving financial management. Further work is planned on improving financial management across the organisation and within the finance function. This is being delivered through the Reshaping Financial Management programme. Other actions/controls now in place include directorates operating on a cash limited budget basis. Budget holders are required to commit to spending within their cash limited budget via a signed accountability statement. A Budget Review Panel, chaired by the Chief Executive, was introduced in 2024 to test the robustness of deficit recovery plans for any areas of overspending. In addition, achievement of transformation savings and delivery of financial and other non-financial benefits is being tracked through the Benefits Realisation Group.

The Improvement Board established in 2023 with external subject matter experts continues to oversee progress being made to achieving a sustainable financial position and provides critical challenge. It is however expected to cease operation in December 2025.

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. The Executive Director of Enabling Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment

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with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

A revised business planning framework, aligning strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTFs, was developed in 2023-24 however the roll out of the new approach was deferred to 2024-25 due to the focus being on the significant financial challenge and recognising the need for it to be aligned with the new Financial Strategy. The roll out in 2024-25 was supported by a cross organisational Business Planning & Performance group that meets monthly and is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. This is being further developed for 2025-26 and implemented through the Business Planning & Performance group.

All significant **commercial partnership working arrangements** also have a range of performance indicators which are used to monitor, verify, and manage service performance as well as separate arrangements in respect of monitoring and assessing financial risk. The council is committed to achieving best value from its procurement activities and contracts and ensuring that goods, services, and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our service providers.

Principle 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 Data**' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

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 Director of Legal and 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 are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on '**The Role of the Head of Internal Audit in Public Service Organisations** (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards (with effect from 1st April 2025 the Global Internal Audit Standards will apply) and is embedded in the Internal Audit Charter & Code of Ethics. 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.

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 (e.g. the Governance Committee and the Audit Committee).

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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 Executive Director Enabling Services (Section 151 Officer), Chair of the Governance Committee, Director of Legal and 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 Audit Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Audit Committee along with any Executive or Service Director comments. The Audit Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, reported to the Audit Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2024/25 was that [to be advised by End Q1 2025-26]
- The Internal Audit Charter and delivery of the annual Internal Audit Plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The 'AGS Self-Assessment Statements' completed by Service Directors/Heads of Service and signed off by the relevant Executive Director. The self-assessments 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. The 'self-assessments' include a declaration that 'action will be taken in 2025-26 to address any significant gaps or weakness in the corporate governance and internal control framework that have been identified'.
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA.
- The Annual Risk Management report that is presented to both the Audit Committee and the Governance Committee.
- 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 Audit 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

CONTINUING THEME FROM THE 2023-24 AGS

Whilst progress has been made in in both stabilising the council's financial position and improving financial management through implementing recommendations made by the Chartered Institute of Public Finance and Accountancy recommendations (following their review of the council's resilience

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and financial management in 2023), further work is planned on improving financial management across the organisation. This is necessary to secure and embed improvements and best practice and will be fundamental in terms of supporting effective delivery of the agreed transformation plans in 2025/26 and beyond.

Planned Action: Actions to be delivered through the Reshaping Financial Management programme.

Responsible Officer: Executive Director Enabling Services

Target date for completion: Q4 2025/26

2. Governance Issue

CONTINUING THEME FROM THE 23-24 AGS

A revised business planning framework, aligning strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTFS was rolled out in 2024-25 and supported by a cross organisational Business Planning & Performance group.

For 2025-26 the corporate business planning process will continue to be rolled out with further embedding of the 'golden thread' flowing from the City Plan, Corporate Plan, Directorate Plans, Divisional and Service Plans, and individual Personal Development Review (PDRs).

Planned Action: Process being reviewed Director of Strategy & Performance in consultation with the Director of Finance. To be aligned with the City Plan, Corporate plan and flow through to staff PDRs.

Responsible Officer: Director of Strategy & Performance

Target date for completion: Work to be finalised through Q2 2025

3. Governance Issue

CONTINUING THEME FROM THE 23-24 AGS

In 2022 the Council commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. A 10-point Action Plan arising from their report was formulated and agreed with the majority of actions implemented throughout 2023/24 with the remaining actions, in respect of corporate governance and the Constitution to be implemented as part of wider CfGS governance review.

In respect of decision-making, the CfGS hosted workshops in September and October 2024 regarding improved report writing and consistency of approach to formal decision making including specifically ESIAs (environmental and social impact assessments). The actions arising out of these workshops need to be progressed and embedded.

Planned Action: The CfGS review was intended to inform a more fundamental review of both corporate governance and the Constitution and this was commenced in January 2025 with the intention that the overall exercise was completed by May 2025 for the Council 'Annual General Meeting'. As this has progressed the original intentions and workstreams have widened, including a further commission of CfGS to assist in redrafting the Council Constitution, and therefore a readjusted timescale was agreed for the work to be presented to Council by November 2025 at the latest, with some matters being presented at September Council.

The actions arising out of the of the CfGS workshops in respect of improved report writing and consistency of approach to formal decision making including ESIAs are to be implemented and embedded.

Responsible Officer: Director of Legal and Governance

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Target date for completion: November 2025

4. Governance Issue

In January 2025 the council welcomed a team of officer and Member colleagues from other local authorities as part of a Local Government Association (LGA) Corporate Peer Challenge (CPC). As part of the process the CPC peer team reviewed key finance, performance and governance information provided by the council and met with over 100 council officers, councillors, partners, staff focus groups and residents. Following the CPC, the peer team provided a detailed report including 11 recommendations to help guide the council.

Planned Action: *Implementation of the key governance actions arising from the 2025 Corporate Peer Challenge.*

The council has grouped the recommendations in the CPC report into four themes which each theme including a summary of the council's response including the actions taken since the CPC, further high-level actions that are planned and indicative timescales for completion. The council's '2025 Corporate Peer Challenge Action Plan' has been presented, discussed and agreed by the council's Cabinet on 27th May 2025.

Responsible Officer: *Chief Executive*

Target date for completion: *Short term by July 2025 / Medium term by December 2025 / Longer term 2026 onwards*

5. Governance Issue

There are a number of bespoke areas across the council with ongoing governance and control issues that have failed to be addressed within a reasonable timeframe. These have resulted in recurring 'Limit Assurance' reports issued by Internal Audit.

Planned Action: *Is it recognised that some of these systemic ongoing governance and control issues may require a more fundamental review of the activity in terms of process, resourcing etc. and could potentially form part of the transformation activity/programme within the respective service area. Initial action for Chief Internal Auditor to discuss with the relevant individual Executive Directors to determine whether they are able to implement the agreed actions and/or whether a transformational programme is relevant to address the issues currently residing as unresolved.*

Responsible Officer: *Chief Executive*

Target date for completion: *End of August 2025 in terms of the initial discussion between the Chief Internal Auditor and the relevant Executive Directors.*

6. Governance Issue

In Feb 2025, a deep dive diagnostic was undertaken across the council's Human Resources & Organisational Development function. As a result of this activity 18 risk areas leading to priority improvement activity was identified as requiring immediate mitigation.

Planned Action: *These risks were further investigated and due to the nature and extent of the serious nature, a mitigation plan and interim leadership structure was proposed and put into place with immediate effect and weekly reporting.*

Progress has been made across all of the areas and the most serious risks are in progress and have been mitigated to an amber level whilst the work is completed to embed the new governance and compliance processes and reporting.

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Responsible Officer: *Director of People & Organisational Culture*

Target date for completion: *End Q3 2025-26*

7. Governance Issue

There is a need to further support Executive Directors in terms of the identification and management of key risks within their areas via a proportionate and accessible process and to ensure that members are appropriately sighted on the council's Strategic Risks.

Planned Action: *A new Directorate Risk Register SharePoint site and associated Power BI Risk Dashboard has been developed and is being piloted prior to it being rolled out across the council in Q1 2025-26. This will allow for all directorate risks to be held in one place, in a consistent format and for officers to easily access and update their risks and allow for greater transparency/visibility across the directorates.*

The council's Strategic Risks are also to be reported on a quarterly basis to both the council's Audit Committee and the Governance Committee, with Cabinet Members being sighted on the Strategic Risks relevant to their portfolio via Cabinet Member Briefing process. This will commence following the End Q1 review and update of Strategic Risks.

Responsible Officer: *Director of Legal & Governance*

Target date for completion: *End Q2 2025-26*

8. Governance Issue

The performance monitoring and reporting arrangement and framework will need to continue to develop and evolve to ensure that it is kept relevant to changing organisational needs with a consistent approach to setting local targets, action tracking/impacts including the performance measures reported at different levels across the organisation.

Planned Action: *Work is being undertaken to further review and refine the council's performance framework approach in collaboration with the Director of People and Organisational Culture and the Business Planning & Performance group.*

Responsible Officer: *Executive Director Enabling Services*

Target date for completion: *End Q2 2025-26*

9. Governance Issue

There are a range of other significant issues/risks that the council has, and will continue to need to manage in 2025/26 including the ongoing Transformation Programme, Equal Pay (and including an Equal Pay Audit and lessons learned), Devolution and Local Government Reorganisation, Decent Homes compliance, ongoing cyber risks etc.

Planned Action: *In all cases there are designated leads in place to manage and oversee actions and progress in respect of these issues. They are also captured on the council's Strategic Risk Register that has regular Management Board and Member oversight via both the Audit Committee and the Governance Committee and the relevant Cabinet Members.*

Responsible Officer: *Chief Executive*

Target date for completion: *Ongoing for 2025/26 and beyond*

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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

.....
Jillian Kay

Chief Executive

On behalf of Southampton City Council

.....
Councillor

Leader of the Council

AUDITOR'S REPORT