SOUTHAMPTON
CITY COUNCIL

Statement of Accounts

2014/15

SOUTHAMPTON
CITY COUNCIL

FINANCIAL STATEMENTS 2014/15

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PREFACE

Introduction to the 2014/15 Statement of Accounts by Councillor Chaloner, Cabinet Member for Finance

Councillor Chaloner

Welcome to Southampton City Council's Statement of Accounts for 2014/15.

Southampton City Council has continued to work tirelessly throughout 2014/15 to bring investment to the City and improve the value for money we provide. We continue to work closely with and listen to our partners, residents, and staff, both through the pre-budget priorities survey in 2013, and the more recent City Survey 2014. It is heartening to see that despite the difficult decisions the Council has had to make in light of financial challenges, residents' satisfaction has improved for both how the Council runs things and those agreeing that the Council offers value for money. Our approved capital programmes of £334.7M (2014/15 – 2019/20) aims to bring jobs and investment to the City. Regeneration in the City's estates continues with plans to build over new 500 council homes; Townhill Park proposals are progressing. The last year has seen an estimated £167M investment in major city centre developments, creating over 400 jobs. These VIP projects include Watermark West Quay and the New Southampton Arts Complex in the Cultural Quarter, which has already a number of units let. Despite our financial challenges we have continued to invest to ensure good local schools and the protection of children, and kept Sure Start Children's Centres open.

The revenue budget in 2014/15 delivered a net budget saving of £14.4M; this is in addition to the £31.4M saved in the previous two financial years. The Council continues to face significant financial challenges with a projected funding gap of £60.7M by 2017/18, as the role and shape of public services changes dramatically. This is not only because of the reality of deficit reduction but also radical changes in the needs, behaviours and expectations of residents, customers, clients and communities.

Achieving these saving targets will require the Council to change the way it does business, a journey that has already been embarked on with the publishing of the New Operating Model, and the start of an outcome based commissioning and outcome based budgeting approach.

The Statement of Accounts this financial year has been published earlier than the statutory requirement which is a fantastic achievement and I would like to take this opportunity to thank all of our finance and audit staff for all their work over the year. This careful management of our finances enables us to make fully informed decisions about the appropriate use of Council resources and deliver the quality of services that residents have come to expect.

FINANCIAL FOREWORD

Message from the Chief Financial Officer

Andrew Lowe

Southampton City Council is embarking on an extensive transformation programme over the coming financial years, and these accounts being published prior to the statutory deadline represent a key element of an extensive work programme.

The achievement of the early publication of the statements is only possible by having sound financial management practices throughout the year and reflects the dedication of all finance staff, who have identified areas for step change improvements both in this financial year and future years to continue on this improvement journey.

The advantages of delivering the statements earlier are many

- We can inform stakeholders of the financial performance at the earliest opportunity;
- Staff can focus on delivering the next year's financial performance; and
- Staff can assist services in identifying and delivering the future year's savings and transformation programme.

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex.

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

The sections contained within the Foreword are:

a) Key Facts about Southampton;
b) Key Facts about Southampton City Council;
c) A summary of the 2014/15 financial performance; and
d) An explanation of the financial statements.

FINANCIAL FOREWORD

1. KEY FACTS ABOUT SOUTHAMPTON

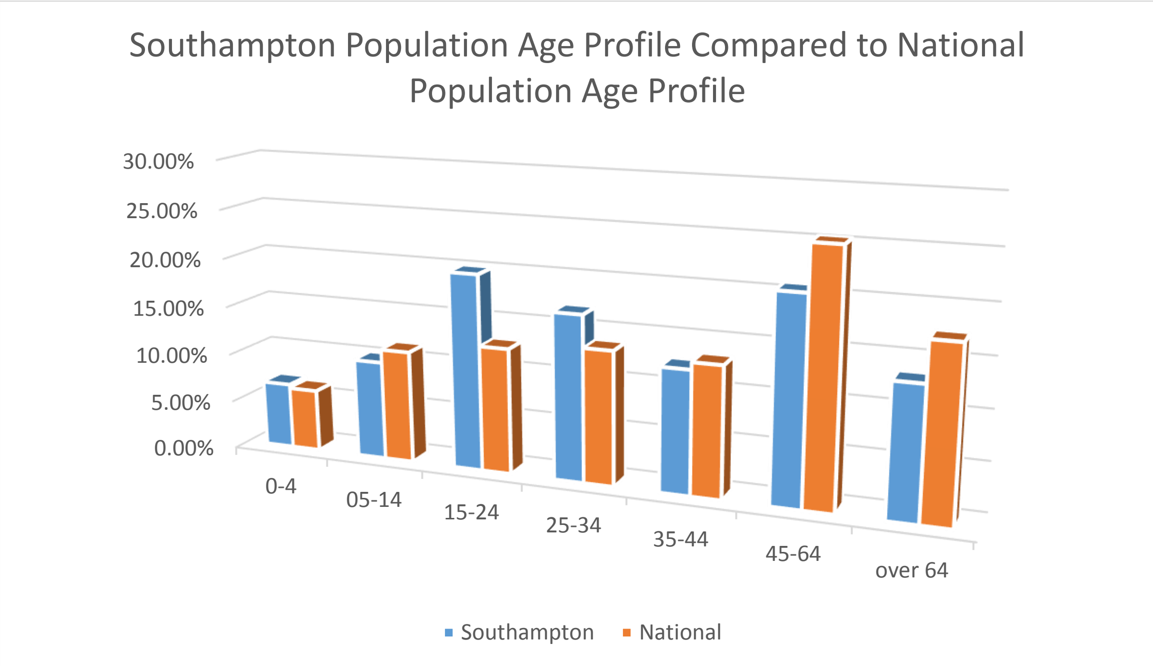
Southampton has a unique sea city location with exceptional transport links, strong position nationally for economic growth, excellent reputation for teaching, and learning, strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student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

There are a number of factors which affect the council 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 the medium term.

Demographics

Southampton has a population of 236,900, with the age profile differing from the national average because of the high number of students, with 20% of the population aged between 15 and 24 years compared to 13% nationally. However the sector of the population aged 65 and over is the fastest growing, with forecasts made using known residential developments plans predicting over 65's will rise by 11% between 2011 and 2018, combine this with 213 older people per 1,000 in receipt of social services in comparison to a national average of 113.5 and a picture of the pressure on the council's resources begins to build.

The chart below shows the age profile of Southampton population in comparison to the national population age profile *(i)*.



Socio - Economic and Housing

Southampton has a series of challenging issues surrounding the socio -economic and housing environment. The table below sets out some of the key statistics around this.

	Southampton	National Average
Gross Weekly Residents Earnings *(ii)*	£401	£418
Average House Price *(iii)*	£151,415	£180,252
Households in privately rented accommodation	25%	17%

(i) Source: Population Estimates for UK, England and Wales, Scotland and Northern Ireland, Mid 2013 Release

(ii) **Source: Annual Survey of Hours and Earnings 2014 (Resident based query), NOMIS. Earnings rounded to the nearest pound.**

(iii) Source: HM Land Registry House Price Index Feb 2015

Benefits data for 2010 indicated that 26.8% of children were living in poverty in comparison to a 21.1% national average, giving Southampton the second highest rate of child poverty in the South East region.

Against this backdrop the Community Safety Strategic Assessment 2014 highlighted that Southampton is a safe city where 93% of people feel safe in their area during the day and 63% feel safe in their area after dark. There has also been a 1.8% reduction in all crimes. However domestic violence and abuse continues to have a significant negative impact with exceptionally high volume of cases identified at highest risk with 2013/14 seeing an increase of 5%.

Southampton City Strategy 2015-25

Bearing the above in mind Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the Council, has developed the City Strategy for 2015-25, with the goal of achieving prosperity for all. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and Safer Communities.

It also includes 4 cross cutting themes:

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

This strategy helps to shape the services the City Council delivers, the next section describes how the Council operates to tackle these challenges

2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

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

Political Structure

Southampton City Council is split into 16 wards each represented by 3 Councillors. The Political Structure in 2014/15 was as follows:

Labour 28

Conservative 18

Councillors Against Cuts 2

Council Management Team

Supporting the work of the elected members is the Council's Management Team. The structure of this team has undergone some change in the latter part of this financial year and Note 26 shows the further detail of people in post. At the close of the financial year the team consisted of:

Chief Executive – Dawn Baxendale

Director of Place – Mark Heath

Director of People – Alison Elliott

Assistant Chief Executive – Suki Sitaram

Director of Public Health – Andrew Mortimore

Head of Legal & Democratic Services – Richard Ivory

Head of Strategic HR – Mike Watts

And myself as Chief Financial Officer

These two groups work together to set out the priorities and themes contained within the Southampton City Council Plan. The Council employs circa 2,500 Full Time Equivalents to deliver these priorities.

Southampton City Council Plan

The council has also set out its priorities for the next three years in the Council Strategy 2014-17.

The Council has agreed 7 main priorities within the Council Strategy. These are:

- Jobs for Local People;
- Prevention and Early Intervention;
- Protecting Vulnerable People;
- Good Quality and Affordable Housing;
- Services for all;
- City Pride; and
- A Sustainable Council.

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different by 2017. The Council Strategy sets out that by 2017 we expect changes in terms of:

- Commissioning Services;
- Community Ownership;
- Better Customer Experiences;
- More flexible ways of working;
- A wide range of service delivery models;
- Listen and improve learning from our mistakes; and
- Increased focus on digital capabilities of customers.

3. A SUMMARY OF THE 2014/15 FINANCIAL PERFORMANCE

The 2014/15 financial year began with the setting of the budget on 12 February 2014, when a balanced budget was set that included savings of £14.4M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

REVENUE – GENERAL FUND

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

- Explain where the funding comes from;
- Compare actual spending to budget; and
- Explain the big differences.

Where the Funding Comes From

The Council's General Fund Revenue expenditure is funded from a number of sources, some of these items are ringfenced and can only be spent on the activities for which it has been given to use. These include:

- Dedicated Schools Grant £123.9M
- Public Health Grant £15M

Other areas of income are not ringfenced and can be utilised to fund any of the Council's services. These include:

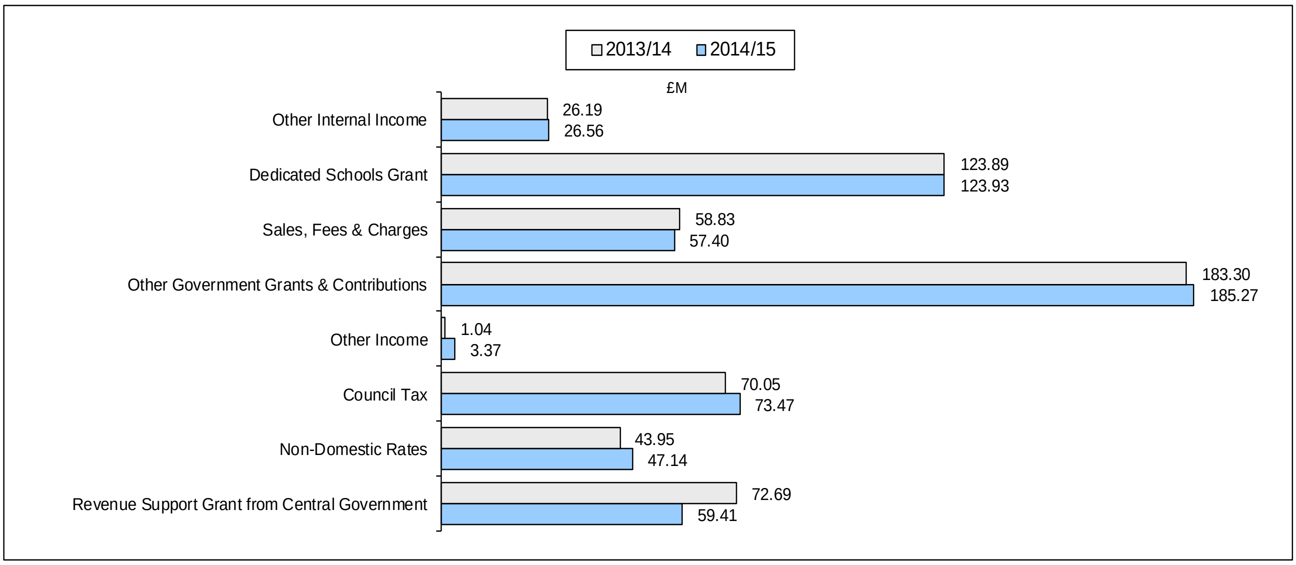
- Council Tax £73.5M
- Business Rates £47.1M
- Revenue Support Grant £59.4M

FINANCIAL FOREWORD

In recent years the amount of funding given to the Council from the Government has reduced considerably. The Comprehensive Spending Review (CSR) announcement in October 2010 and the provisional Local Government Finance Settlement in December 2010 set out unprecedented reductions in Local Government funding for the four year period 2011/12 to 2014/15, with the decrease front loaded. Announcements in December 2011 confirmed that spending reductions on the planned scale were necessary to meet the actual reductions in Government grant. Headline figures within the CSR 2010 assumed a 28% reduction in local Government spending over the four year period but the distribution of the reductions has meant that the Council has experienced reductions of more than 35% during the period from 2011/12 to 2014/15.

The Council Tax Requirement for the year was set at £73.5M which gave a Band D council tax of £1,503.54 for Southampton City Council.

The following chart provides an analysis of the Council's main sources of income for the year which totalled £576.5M and also shows the comparative figures for 2013/14 (£580.0M):



Comparing Actual Spend to Budgets

Since the Council set its 2014/15 budget in February 2014, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council, with a rigorous assessment of vacant posts being undertaken prior to external recruitment to ensure that only essential posts were recruited to. In addition to this recruitment freeze on all but essential vacant posts, a moratorium on all non essential spend was put in place to yield additional in-year savings to support the overall budget.

The actual expenditure against budget is shown in the following table:

GENERAL FUND REVENUE EXPENDITURE 2014/15

Revised Budget* £000		Working Budget** £000	Actual Expenditure £000	Variance £000
66,851	Adult Services	64,567	65,014	446
2,560	Change & Communities	2,539	2,248	(292)
43,695	Children's Services (Education & Children's Safeguarding)	40,555	42,614	2,059
26,223	Environment & Transport	26,274	25,888	(386)
1,958	Housing & Sustainability	1,910	1,809	(101)
4,392	Leader's Portfolio	4,854	4,153	(702)
46,940	Resources & Leisure	50,630	47,009	(3,621)
192,620	**Sub-total for Portfolios**	**191,330**	**188,734**	**(2,596)**
21,989	Other Items	23,375	22,028	(1,346)
214,609	**Portfolio Total**	**214,705**	**210,762**	**(3,942)**
631	Levies & Contributions	631	444	(187)
(14,125)	Capital Asset Management	(12,525)	(21,338)	(8,813)
(110,937)	Other Expenditure & Income	(112,939)	(113,887)	(948)
90,179	**NET GF SPENDING**	**89,872**	**75,982**	**(13,890)**
(16,712)	(Draw from) / addition to Balances and Reserves	(16,405)	(2,516)	13,889
73,467	**Budget Requirement**	**73,467**	**73,467**	**0**

*The Revised Budget for 2014/15 was approved by Council on 11 February 2015 and represents the expected outturn position for the year at that point in time.

**The Working Budget for 2014/15 reflects any further movements between budgets from that point up to and including the end of the financial year.

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

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

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

Portfolio Expenditure (Excluding Other Items) is analysed below by category to explain further where the money went.

	Working Budget £000	Actual Expenditure £000	Variance £000
Salaries & Wages & Other Employee Costs	93,825	94,466	641
Premises Costs	16,832	12,536	(4,297)
Transportation Costs	3,867	4,038	172
Supplies & Services	74,746	94,317	19,571
Internal Charges	5,395	6,501	1,106
Other Direct Costs (Includes School Allocations)	238,385	229,926	(8,459)
Total Expenditure	**433,049**	**441,784**	**8,735**
Internal Income	(25,419)	(24,641)	778
Fees, Charges & Rents	(44,723)	(49,130)	(4,407)
Grants / Contributions	(171,577)	(179,279)	(7,702)
Total Net Expenditure	**191,330**	**188,734**	**(2,596)**

Explaining the Big Differences

The major variances

	£000
Savings in Portfolio Budgets	(3,942)
Reduction in Capital Financing Charges met by Revenue in Year	(8,813)
Other Variances	(1,134)
Total	**(13,889)**

HOUSING REVENUE ACCOUNT SUMMARY

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The majority of funding for this account comes from housing rents, page 83 summarises the major funding sources.

The Council has placed certain requirements around the HRA to ensure it is financially sound, these are:

- Borrowing Headroom
- Minimum Balance

The following sections will:

- Explain where the funding comes from and where the money went;
- Compare Actual Spending to Budget; and
- Explain the big differences.

Where the Money Came From and Where the Money Went

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

HRA REVENUE EXPENDITURE 2014/15

	Budget £000	Actual £000	Variance £000
Dwelling Rents	71,592	71,481	111
Other Rents	1,292	1,178	114
Total Rental Income	**72,884**	**72,659**	**225**
Service Charge Income from Tenants	1,616	1,540	76
Service Charge Income from Leaseholders	576	1,096	(520)
Interest Received	25	26	(1)
Total Income	**75,101**	**75,321**	**(220)**
Responsive Repairs	10,455	14,442	3,987
Programmed Repairs	5,637	5,928	291
Total Repairs	**16,092**	**20,371**	**4,279**
Rents Payable	162	239	77
Debt Management	69	45	(24)
Supervision & Management	21,054	20,068	(986)
Capital financing charges	11,507	10,394	(1,113)
Depreciation	17,940	18,939	999
Direct Revenue Financing	8,555	5,544	(3,011)
Total Expenditure	**75,379**	**75,599**	**220**
(Surplus) / Deficit for Year	**278**	**278**	**0**

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

Comparing Actual Spending to Budget

The budget for the year was set at £0.278M deficit and the actual outturn for the year was also a deficit of £0.278M. The HRA working balance at 31 March 2015 is £2M.

Explaining the Big Differences

The major variances are detailed below:

	£000
Increase in Repairs	4,279
Savings in Supervision and Management	(986)
Reduction in Capital Financing Charges	(1,113)
Reduction in Capital Funding from DRF and Depreciation	(2,012)
Other Variances	(167)
Total	**0**

CAPITAL

General Fund Capital Summary

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

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

Comparing Actual Spending to Budget

The budget for the year, following all approved changes, was to spend £58.8M on capital projects and final capital spend for the year was £9.7M less than the budget at £49.1M.

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

	Budget £000	Actual £000	Variance £000
Children's Services	9,190	7,913	(1,277)
Environment & Transport	35,198	31,350	(3,848)
Environment & Transport - City Services	795	641	(154)
Health & Adult Social Care	456	297	(159)
Housing & Sustainability	2,471	1,359	(1,112)
Leader's	6,055	4,565	(1,490)
Resources & Leisure - Resources	2,025	1,021	(1,004)
Resources & Leisure - Leisure	2,560	1,914	(646)
Total General Fund	**58,750**	**49,060**	**(9,690)**

Explaining the Big Differences

The final spend for the year was £9.7M lower than the budget due to slippage on schemes which will be spent in 2015/16. Some of the major slippage was on the following schemes:

- Highways £0.9M
- Accommodation Strategy £0.8M
- Congestion Redevelopment £0.7M
- Southampton New Arts Complex £0.6M
- QE2 – Bargate £0.5M
- Woolston Library £0.4M
- Flood Risks £0.3M
- Bridge Programme £0.3M
- Platform for Prosperity £0.3M
- Early Years & Primary Expansion £0.3M
- Guildhall Square £0.2M
- Estate Parking Improvements £0.2M
- Disabled Facilities Grants £0.2M
- Sea City £0.2M
- Oaklands Pool £0.2M

How the expenditure was funded

The table below shows how capital spending was funded:

	£000
Unsupported Borrowing	16,445
Capital Receipts	2,546
Capital Grants	26,793
Contributions	2,208
Direct Revenue Financing	1,068
Total	**49,060**

Housing Revenue Account (HRA) Capital Summary

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

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

Comparing Actual Spend to Budget

The budget for the year was to spend £34.9M on capital projects. The final capital spend for the year was £4.7M less than budget at £30.2M. The table below summarises the capital expenditure for the year:

	Budget £000	Actual £000	Variance £000
Estate Regeneration	2,424	2,044	(380)
New Build	2,885	2,203	(682)
Safe Wind & Weather Tight	5,211	5,378	167
Modern Facilities	14,460	13,700	(760)
Well Maintained Communal Facilities	7,343	5,200	(2,143)
Wam & Energy Efficient	2,606	1,700	(906)
Total	**34,929**	**30,225**	**(4,704)**

Explaining the Big Differences

The final spend for the year was £4.7M lower than the budget mainly due to slippage on schemes which will be spent in 2015/16. Some of the major slippage was on the following schemes:

- Warm and Energy Efficient £0.9M
- Well Maintained Communal Facilities £2.1M
- New Build – Erskine Court Rebuild £0.7M
- Modern Facilities £0.8M

FINANCIAL FOREWORD

Where the Money Came From

The table below shows how capital spending was financed:

	£000
Capital Receipts	3,639
Capital Grants / Contributions	2,103
Direct Revenue Financing	5,544
Depreciation (formerly Major Repairs Allowance)	18,939
Total	**30,225**

RESERVES AND BALANCES

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

Earmarked Reserves	Balance 31 March 2014 £000	Net Transfers In 2014/15 £000	Net Transfers Out 2014/15 £000	Balance 31 March 2015 £000
General Fund				
PFI Sinking Fund	(4,289)	(35)		(4,324)
Pay Reserve	(1,612)			(1,612)
On Street Parking	(1,845)	(528)		(2,373)
Treasury Risk Reserve	(3,063)			(3,063)
Transformation	(2,279)	(2,151)		(4,430)
General Fund Contributions to Capital	(1,857)	(1,716)		(3,573)
Medium Tern Financial Risk Reserve		(10,894)		(10,894)
Taxation Reserve		(2,000)		(2,000)
Organisational Development Reserve		(9,766)		(9,766)
Revenue Grant Reserve - Waste Services		(1,633)		(1,633)
Revenue Grant Reserve - City Deal		(3,462)		(3,462)
Accomodation Reserve		(1,815)		(1,815)
Revenue Grant Reserve - General		(1,279)		(1,279)
Other Reserves	(1,136)	(829)	233	(1,732)
	(16,081)	**(36,108)**	**233**	**(51,956)**
Schools				
School Balances	(12,506)		1,650	(10,856)
	(28,587)	**(36,108)**	**1,883**	**(62,812)**

A full review of reserves and balances was undertaken as part of closing the 2014/15 accounts. A number of reserves are already earmarked to fund commitments that the Council has made, to fund capital spend or the Housing Revenue Account. However, in recognition of the Council's Medium Term Financial Strategy; that the Council faces significant budget shortfalls; the volatility around business rates; and that potentially savings maybe delayed whilst the Council goes through a significant period of change a Medium Term Financial Risk Reserve and a Taxation Reserve have been set up to assist the Council in meeting these risks.

The General Fund Balance has reduced significantly in 2014/15 as provision for commitments previously held within general fund balances have now been allocated to earmarked reserves.

The Council's approved minimum level for the General Fund Balance is £5.5M, as recommended by the Chief Financial Officer following an assessment of risk. In the context of gross spend in excess of £500M this provides a relatively small cushion to enable the Council to cover the risk of unexpected events leading to significant unplanned expenditure. The balance as at 31 March 2015 therefore exceeds the approved minimum level, but is in line with the coming year's budget requirement.

4. AN EXPLANATION OF THE FINANCIAL STATEMENTS

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

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

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

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

ACCOUNTING ISSUES AND DEVELOPMENTS

Pension Fund Deficit

The deficit on the Pension Fund, as at 31 March 2015, has increased from £331.4M to £390.7M see note 34 for further details

Universal Credit

Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. 2016 will see the phased introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue & Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2014/15 amounted to approximately £40.8M.

Limited Liability Partnership

Southampton City Council on 15 September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;

- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes through true partnership working incorporating the insourcing principle which optimises the use of Council staff or the Council's Strategic Service Partner – Capita Property and infrastructure where it is practical and prior to the appointment of any third party.

There were no material transactions in the financial year ended 31 March 2015.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

1. The Council's Responsibilities

The Council is required to:

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

2. The Chief Financial Officer's Responsibilities

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

In preparing this Statement of Accounts the CFO has:

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

The CFO has also:

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

3. Certification of the Accounts

I certify that the Financial Statements presents the true and fair position of Southampton City Council at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

Signed **A Lowe** Date 14 September 2015

Chief Financial Officer

4. Approval of the Accounts

I certify that the Financial Statements have been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2011 and is authorised for issue.

Signed **S Barnes-Andrews** Date 14 September 2015

Chair, Governance Committee

Comprehensive Income and Expenditure Statement

2013/14 Restated Expenditure £000	Income £000	Net £000		Notes	2014/15 Expenditure £000	Income £000	Net £000
85,503	(21,400)	64,103	Adult Social Care		88,655	(19,915)	68,740
8,522	(2,078)	6,444	Central Services to the Public		8,657	(2,558)	6,099
3,746	(396)	3,350	Corporate and Democratic Core		3,656	(415)	3,241
6,251	(1,787)	4,464	Non Distributable Costs		5,651	(1,876)	3,775
215,332	(159,847)	55,485	Children's and Education Services		219,461	(158,707)	60,754
22,272	(4,477)	17,795	Cultural and Related Services		19,102	(4,736)	14,366
27,732	(9,799)	17,933	Environment and Regulatory Services		28,246	(9,527)	18,719
7,602	(2,626)	4,976	Planning and Development Services		11,489	(5,496)	5,993
14,297	(14,652)	(355)	Public Health		15,557	(15,418)	139
26,190	(15,280)	10,910	Highways and Transport Services		25,639	(15,554)	10,085
57,625	(73,869)	(16,244)	Local Authority Housing		61,735	(77,840)	(16,105)
(12,956)		(12,956)	Local Authority Housing-impairment loss/(gain) on dwellings		(11,433)		(11,433)
129,822	(118,481)	11,341	Other Housing Services		130,715	(120,277)	10,438
			Exceptional Items				
30,716		30,716	Impairment on General Fund Assets	5	27,188		27,188
622,654	**(424,692)**	**197,962**	**Cost of Services**	8	**634,318**	**(432,319)**	**201,999**
		37,379	Loss / (Gain) on the disposal of Non Current Assets	12c			11,244
		661	Contributions to Other Local Public Bodies				444
		940	Contributions of Housing Capital Receipts to Government Pool				1,060
		38,980	**Other Operating Expenditure**				**12,748**
		(1,269)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14			(986)
		15,356	Interest payable and similar charges	11			15,592
		(689)	Interest and Investment Income	11			(1,572)
		18,210	Net interest on the defined benefit liability (asset)	34b			14,490
		31,608	**Financing, and Investment Income & Expenditure**				**27,524**
		(72,012)	Council Tax Income				(75,813)
		(43,954)	Non - Domestic Rates Redistribution	38			(50,052)
		(90,016)	General Government Grants	37			(73,533)
		(21,481)	Capital Grants and Contributions	37			(26,176)
		(227,463)	**Taxation and Non-Specific Grant Income**				**(225,574)**
		41,087	**Deficit / (Surplus) on the Provision of Services**	8			**16,697**
		(9,059)	Surplus or deficit on revaluation of non current assets	22a			(10,203)
		1,520	Impairment losses on non-current assets charged to the revaluation reserve	22a			1,116
		239	Surplus or deficit on revaluation of available for sale financial assets				(572)
		(106,090)	Remeasurements of the net defined benefit liability (asset)	34g			45,600
		(113,390)	**Other Comprehensive Income and Expenditure**				**35,941**
		(72,303)	**Total Comprehensive Income and Expenditure**				**52,638**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserve £000
Balance at 1 April 2013	(29,923)	(26,388)	(3,289)	(7,038)	0	(9,140)	(75,778)	(689,557)	(765,335)
Movement in Reserves during 2013/14									
Surplus on provision of services (accounting basis)	63,616		(22,529)			0	41,087		41,087
Other comprehensive Income and Expenditure							0	(113,390)	(113,390)
Total Comprehensive Income and Expenditure	63,616	0	(22,529)	0	0	0	41,087	(113,390)	(72,303)
Adjustments between accounting basis and funding basis under regulations (note 10)	(89,299)		23,540	647		1,918	(63,194)	63,194	0
Net Increase before Transfers to Earmarked Reserves	(25,683)	0	1,011	647	0	1,918	(22,107)	(50,196)	(72,303)
Transfers to / (from) earmarked reserves (note 9)	2,197	(2,199)					(2)	2	0
(Increase) / Decrease in Year	(23,486)	(2,199)	1,011	647	0	1,918	(22,109)	(50,194)	(72,303)
Balance at 31 March 2014	(53,409)	(28,587)	(2,278)	(6,391)	0	(7,222)	(97,887)	(739,751)	(837,638)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserve £000
Balance at 1 April 2014	(53,409)	(28,587)	(2,278)	(6,391)	0	(7,222)	(97,887)	(739,751)	(837,638)
Movement in Reserves during 2014/15									
Surplus on provision of services (accounting basis)	41,522		(24,825)				16,697		16,697
Other comprehensive Income and Expenditure							0	35,941	35,941
Total Comprehensive Income and Expenditure	41,522	0	(24,825)	0	0	0	16,697	35,941	52,638
Adjustments between accounting basis and funding basis under regulations (note 10)	(42,278)		25,104	(2,731)		314	(19,591)	19,591	0
Net Increase before Transfers to Earmarked Reserves	(756)	0	279	(2,731)	0	314	(2,894)	55,532	52,638
Transfers to / (from) earmarked reserves (note 9)	34,228	(34,225)	(1)				2	(2)	0
(Increase) / Decrease in Year	33,472	(34,225)	278	(2,731)	0	314	(2,892)	55,530	52,638
Balance at 31 March 2015	(19,937)	(62,812)	(2,000)	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)

Balance Sheet

31 March 2014 £000		Notes	31 March 2015 £000	£000
1,187,807	Property Plant & Equipment	12	1,190,023	
196,372	Heritage Assets	13	196,386	
112,352	Investment Property	14	101,426	
2,464	Intangible Assets	15	4,692	
3,447	Long Term Investments	17b	22,839	
8,992	Long Term Debtors	18a	5,004	
1,511,434	**Long Term Assets**			**1,520,370**
18,229	Short Term Investments	17b	14,293	
4,627	Assets held for Sale	16	2,571	
813	Stock (Inventories)		565	
58,670	Short Term Debtors	18b	60,755	
(15,902)	- Impairment of Short Term Debtors	18b	(17,376)	
48,208	Cash & Cash Equivalents	19	54,965	
114,645	**Current Assets**			**115,773**
(6,261)	Cash & Cash Equivalents	19	(7,709)	
(652)	Deferred Liabilities	17b	(626)	
(32,195)	Short Term Borrowing	17b	(22,067)	
(64,401)	Short Term Creditors	20	(78,670)	
(7,124)	Provisions	21	(8,685)	
(110,633)	**Current Liabilities**			**(117,757)**
(60,010)	Long Term Creditors	17b	(64,795)	
(8,090)	Provisions	21	(9,127)	
(243,310)	Long Term Borrowing	17b	(231,805)	
	Other Long Term Liabilities			
(15,645)	- Deferred Liabilities	17b	(15,019)	
(9)	- Deferred Capital Balances		(8)	
(19,354)	- Cap. Grants & Conts Receipts in Advance	37	(21,932)	
(331,390)	- Pension Fund Liability	34c	(390,700)	
(677,808)	**Long Term Liabilities**			**(733,386)**
837,638	**Net Assets**			**785,000**
	Useable Reserves			
(6,391)	Useable Capital Receipts Reserve	10	(9,122)	
(7,222)	Cap. Grants & Conts Unapplied	10	(6,908)	
(28,587)	Earmarked Revenue Reserves	10	(62,812)	
	Revenue Balances			
(53,409)	General Fund	10	(19,937)	
(2,278)	Housing Revenue Account	10	(2,000)	
(97,887)				**(100,779)**
	Unuseable Reserves			
(297,824)	Revaluation Reserves	22a	(297,538)	
(387)	Available-for-Sale Financial Instruments Reserve		(959)	
(781,897)	Capital Adjustment Account	22b	(770,704)	
438	Financial Instruments Adjustment Account		392	
331,390	Pension Reserve	22c	390,700	
6,486	Collection Fund Adjustment Account	22d	(5,635)	
2,043	Accumulated Absences Account	22e	2,285	
0	Deferred Capital Receipts Reserve	22f	(2,762)	
(739,751)				**(684,221)**
(837,638)				**(785,000)**

Signed **S Barnes-Andrews** Date 14 September 2015
Chair, Governance Committee

Cash Flow Statement

2013/14 £000		Notes	2014/15 £000
(41,087)	Net surplus or (deficit) on the provision of services		(16,697)
155,981	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	112,544
(50,086)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(50,118)
64,808	**Net Cash Flows From Operating Activities**		**45,729**
(23,012)	Net Cash flows from Investing Activities	23 c)	(29,478)
(45,405)	Net Cash flows from Financing Activities	23 d)	(10,942)
(3,609)	**Net Increase / (Decrease) in Cash and Cash Equivalents**		**5,309**
45,556	Cash and cash equivalents at the beginning of the reporting period	23 e)	41,947
41,947	**Cash and Cash Equivalents at the End of the Reporting Period**	23 e)	**47,256**

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Financial Statements summarise the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Financial Statement by the Accounts and Audit (England) Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

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

b) Accruals of Income and Expenditure

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

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

c) Acquisitions and Discontinued Operations

Transactions relating to Acquired and Discontinued Operations are separately disclosed within the Comprehensive Income and Expenditure Statement and the Balance Sheet including comparatives as required by the Code of Practice.

d) Cash and Cash Equivalents

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

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

e) Exceptional Items

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

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

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

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

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

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

g) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Property Plant & Equipment (PPE) during the year:

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

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

h) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teachers' annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. No accrual has been made in respect of annual leave and flexi-time carried forward by non-teaching staff as this is not considered to be material.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. 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 members of two separate pension schemes:

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

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

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

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

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

- Assets and Liabilities of the fund will not be split between the Council and Capita, so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both Council employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both Council employees and employees transferred to Capita.
- The Pension Interest Costs in the Income & Expenditure Account will be reflective of the Council's share, including the Capita element.
- The SCC actual pension fund contributions for 2014/15 will be excluded from SCC's accounts, and will be a reconciling item in the MiRS.
- The accounts will therefore reflect the full IAS19 position of the Council including the Capita element.

The Local Government Pension Scheme

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

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

The change in the net pensions' liability is analysed into 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 as part of Non-Distributed Costs.
- **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.
- **Contributions Paid to Hampshire County Council** – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the MiRS this means there are appropriations to and from the 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.

The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Council by £390.7M in 2014/15 and by £331.4M in 2013/14.

The total liability of £390.7M 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 further information please see ***Note 34 (Defined Benefit Pension Schemes).***

i) Events After the Balance Sheet date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts, for Southampton City Council this date has been determined as 29 May 2015.

j) Financial instruments

Financial Liabilities

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

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

Available-for-Sale Assets

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

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

- Instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

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 relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

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

l) Heritage Assets

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

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

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

  No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.
- **Works of Art** – The art collection which includes paintings (both oil and watercolour), sketches, and sculptures, is designated (i.e. officially recognised as being significant) and numbers approximately 3,500 items most of which have been acquired through donation.

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

  The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is due to the diverse nature of the assets held and lack of comparable market values. Consequently the Council does not recognise these assets on the balance sheet.
- **Local and Maritime Collections** – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

  No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.
- **Historic Buildings and Ancient Monuments** – The Council has a number of Historic Buildings and Structures including:
  - The Tudor House Museum;
  - God's House Tower;
  - The Bargate;
  - The Wool House;
  - West Gate Hall (formerly Tudor Merchants Hall); and
  - Town Walls and various Vaults

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

Valuation

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

m) Interests in Companies and Other Entities

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

In 2014/15 there were no relationships which would require the Council to produce Group Accounts.

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. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

o) Joint Arrangements

Joint Arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangemet can be classed as

- A Joint Venture
- A Joint Operation

Joint Venture

A Joint Venture is an arrangement under which two or parties have contractually agreed to share control, such that decisions about the activites of the arrangement are given unanimous consent from all parties.

Joint Operation

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

p) Leases

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

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

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

The Council as Lessee

The Council does not have any material finance or operating leases.

The Council as Lessor

Finance Leases

The Council does not have any material finance leases.

Operating Leases

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

q) Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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.

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

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

- Infrastructure, and Community Assets – Depreciated historical cost.
- Dwellings – Fair value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost.
- All Other Assets – Fair value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

The written-off value of disposals is not a charge against council tax, as the cost of PPE 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 Property, Plant and Equipment.

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

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

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

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

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 accounts.

Contingent Assets

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

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

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 in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the MiRS so that there is no net charge against council tax for the expenditure.

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

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.

w) Value Added Tax (VAT)

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

x) Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a ten year strategic services partnership contract with Capita, this was subject to extensive renegotiations in 2013/14, resulting in significant savings and benefits, and an extension of the contract for an additional five years in accordance with the original agreement.

The contract, which involved the TUPE transfer of approximately 650 employees to Capita, delivers a wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

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

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

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

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

y) Collection Fund

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

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

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

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

z) Rounding Convention

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom (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 the following new or amended standards within the 2015/16 Code:

IFRS 13 Fair Value Measurement – This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions).The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the Statement of Accounts, due to the low value of surplus assets held by the Council.

IFRIC 21 Levies – This standard provides guidance on levies imposed by Government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

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

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

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

  There are currently 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.

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

The table below illustrates the number and type of schools:

Status as at 31 March 2015	Infant	Junior	Primary	Secondary	Other	Total
Academies	5	4	7	4	2	22
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	4	4	19	5	5	37
Foundation Trust	1		4	2	1	8
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 that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to academy the Council accounts for this as a disposal for nil consideration. As at 31 March 2015, the Council held no assets on its balance sheet in respect of Schools where approval to transfer has been received but the transfer had not occurred.
- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken "in the round" and a decision made. The accounting treatment for finance and operating leases is significantly different, (see Accounting Policies on Leases), and could have a significant effect on the Financial Statements.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Future Funding for Local Government** – There is a high degree of uncertainty about future levels of funding for local Government. However, the Council has determined that this uncertainty is not yet

sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.
- **Doubtful Debts Allowances** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.
- **NDR Appeals Provision** – The Council has made judgements about the level of the NDR appeals that it needs to provide for. These judgements are based on historical levels of refunds as a % of the Gross rate yield after reliefs per the NNDR 1 (7.3%).

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.02M if the useful lives were reduced by one year.
Arrears	At 31 March 2015, the Council had a balance of sundry debtors of £12.6M (excluding £2.8M deferred capital receipt). The current level of impairment allowance (Bad Debt Provision) based on previous experience, is £0.9M, which represents 7% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 40% of the balance, it would require an additional £4.2M to set aside as an allowance.
NDR Appeals Provision	Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in 2014/15 and earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2015. The estimate is a percentage of the Gross rate yield after reliefs per the NNDR1 (based on prior years refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals)	An increase or reduction of the appeals provision estimate of 1.0%, would increase/(reduce) the year end NDR appeals provision by £1.M and (£1.0M) respectively.

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2015 and the projected service cost for the year ending 31 March 2016 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within **Defined Benefit Pension Schemes Note 34 e)**

Funded LGPS Benefits **Discount rate assumption**		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	952.75	989.54
% change of present value of total obligation	-1.9%	1.9%
Projected service cost (£M's)	22.55	23.97
Approximate % change in projected service cost	-3.0%	3.1%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	974.94	967.04
% change of present value of total obligation	0.4%	-0.4%
Projected service cost (£M's)	23.25	23.25
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	985.69	956.49
% change of present value of total obligation	1.5%	-1.5%
Projected service cost (£M's)	23.97	22.55
Approximate % change in projected service cost	3.1%	-3.0%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	996.41	945.44
% change of present value of total obligation	2.6%	-2.6%
Projected service cost (£M's)	24.01	22.48
Approximate % change in projected service cost	3.3%	-3.3%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

5. Prior Period Adjustments

Internal Recharges and Pooled Budgets

Comprehensive Income and Expenditure prior year comparatives have been restated to remove internal recharges income and expenditure of £15.65M and Pooled Budget Contributions of £2.61M respectively. There was no overall impact on the Net figures.

	2013/14								
	Expenditure	Adjustments		Restated	Income	Adjustments		Restated	Net
		Internal Recharges	Pooled Budgets			Internal Recharges	Pooled Budgets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adult Social Care	92,251	(4,223)	(2,525)	85,503	(28,148)	4,223	2,525	(21,400)	64,103
Central Services to the Public	8,909	(387)		8,522	(2,465)	387		(2,078)	6,444
Corporate and Democratic Core	4,017	(271)		3,746	(667)	271		(396)	3,350
Non Distributable Costs	6,251			6,251	(1,787)			(1,787)	4,464
Children's and Education Services	215,880	(467)	(81)	215,332	(160,395)	467	81	(159,847)	55,485
Cultural and Related Services	24,213	(1,941)		22,272	(6,418)	1,941		(4,477)	17,795
Environment and Regulatory Services	33,082	(5,350)		27,732	(15,149)	5,350		(9,799)	17,933
Planning and Development Services	8,439	(837)		7,602	(3,463)	837		(2,626)	4,976
Public Health	14,297			14,297	(14,652)			(14,652)	(355)
Highways and Transport Services	28,346	(2,156)		26,190	(17,436)	2,156		(15,280)	10,910
Local Authority Housing	57,625			57,625	(73,869)			(73,869)	(16,244)
Local Authority Housing-impairment loss on dwellings	(12,956)			(12,956)					(12,956)
Other Housing Services	129,840	(18)		129,822	(118,499)	18		(118,481)	11,341
Exceptional Items									
Impairment on General Fund Assets	30,716			30,716					30,716
	640,910	(15,650)	(2,606)	622,654	(442,948)	15,650	2,606	(424,692)	197,962

Leases

Comparatives for the future minimum lease payments receivable have been restated by £54.84M ***Note 31***

6. Exceptional Items

Revaluation of Property Plant and Equipment

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

7. Events after the Reporting Period

The Financial Statements were authorised for issue by the Chief Financial Officer on 14 September 2015. 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 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Amounts Reported for Resource Allocation Decisions

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

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

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

2014/15 Reconciliation	Adult Services	Children's Services	Communities	Environment & Transport	Housing & Sustainability	Leader's Portfolio	Resources & Leisure	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(11,099)	(10,790)	(658)	(23,119)	(920)	(2,604)	(24,644)	(73,834)	(7,324)	(81,158)	(75,321)	(156,479)
Government Grants & Contributions	(26,414)	(144,527)	(373)	(5,034)	(415)	(2,608)	(1,125)	(180,496)	0	(180,496)		(180,496)
Total Income	**(37,513)**	**(155,317)**	**(1,031)**	**(28,153)**	**(1,335)**	**(5,212)**	**(25,769)**	**(254,330)**	**(7,324)**	**(261,654)**	**(75,321)**	**(336,975)**
Employee Expenses	19,792	27,652	1,441	16,393	1,271	6,352	21,567	94,468	838	95,306	17,586	112,892
Other Operating Expenses	82,474	168,845	1,656	33,877	836	2,858	50,271	340,817	5,037	345,854	45,592	391,446
Internal Charges	261	261	182	3,740	1,014	103	940	6,501	1,489	7,990	12,420	20,410
Total Operating Expenses	**102,527**	**196,758**	**3,279**	**54,010**	**3,121**	**9,313**	**72,778**	**441,786**	**7,364**	**449,150**	**75,598**	**524,748**
Net Controllable Cost	**65,014**	**41,441**	**2,248**	**25,857**	**1,786**	**4,101**	**47,009**	**187,456**	**40**	**187,496**	**277**	**187,773**
Net Non Controllable Costs	7,279	18,989	800	10,219	546	59	(15,904)	21,988		21,988		21,988
Total Portfolio Cost	**72,293**	**60,430**	**3,048**	**36,076**	**2,332**	**4,160**	**31,105**	**209,444**	**40**	**209,484**	**277**	**209,761**

Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement	**£000's**
Total Service Analysis Cost	**209,761**
Add Services Not Included in Main Analysis	(742)
Add Amounts Reported to Management Outside Services	(136,782)
Add Amounts Not Reported to Management	(12,033)
Remove Amounts Reported to Management Not Included in Cost of Services	141,794
Cost of Services in Comprehensive Income and Expenditure Statement	**201,998**

Reconciliation to Subjective Analysis

	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Cost of Services	Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(156,479)	(2,803)	0	(5,707)	6,777	(158,212)		(158,212)
Government Grants & Contributions	(180,496)	(114,574)	(73,533)	20,963	73,533	(274,107)	(99,709)	(373,816)
Interest and Investment Income			(1,546)		1,546	0	(1,572)	(1,572)
Income From Council Tax			(1,782)		1,782	0	(75,813)	(75,813)
NNDR Redistribution			(38,494)		38,494	0	(50,052)	(50,052)
Total Income	**(336,975)**	**(117,377)**	**(115,355)**	**15,256**	**122,132**	**(432,319)**	**(227,146)**	**(659,465)**
Employee Expenses	112,892			(538)		112,354	14,490	126,844
Other Operating Expenses	391,446	116,635		(38,218)	(2,203)	467,661		467,661
Internal Charges	20,410			(904)		19,507		19,507
Depreciation, Amortisation and Impairment			(24,563)	34,358	24,563	34,358		34,358
Investment Properties						0	(986)	(986)
Interest Payable and Similar Charges			4,771		(4,771)	0	15,592	15,592
Other Miscellaneous Items			437		1	438		438
Draw from Balances			(2,516)		2,516	0		0
Precepts & Levies			444		(444)	0	444	444
Payments to Housing Capital Receipts Pool						0	1,060	1,060
Loss / (Gain) on Disposal of Fixed Assets						0	11,244	11,244
Total Operating Expenses	**524,748**	**116,635**	**(21,427)**	**(5,301)**	**19,662**	**634,318**	**41,844**	**676,162**
Net Non Controllable Costs	21,988			(21,988)		0		0
Surplus / Deficit on the Provision of Services	**209,761**	**(742)**	**(136,782)**	**(12,033)**	**141,794**	**201,999**	**(185,302)**	**16,697**

2013/14 Reconciliation	Adult Services	Children's Services	Communities	Economic Development & Leisure	Environment & Transport	Housing & Sustainability	Leader's Portfolio	Resources	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(10,455)	(9,792)	(1,048)	(2,314)	(22,328)	(1,007)	(2,014)	(26,623)	(75,581)	(7,177)	(82,758)	(71,148)	(153,906)
Government Grants & Contributions	(27,327)	(139,267)	(2,196)	(469)	(5,230)	(9)	(527)	(513)	(175,538)	0	(175,538)		(175,538)
Total Income	**(37,782)**	**(149,059)**	**(3,244)**	**(2,783)**	**(27,558)**	**(1,016)**	**(2,541)**	**(27,136)**	**(251,119)**	**(7,177)**	**(258,296)**	**(71,148)**	**(329,444)**
Employee Expenses	20,928	26,405	3,665	4,052	16,794	1,145	4,641	16,665	94,295	796	95,091	9,701	104,792
Other Operating Expenses	78,508	161,192	2,029	4,496	33,151	605	895	50,604	331,480	4,875	336,355	56,815	393,170
Internal Charges	254	267	99	171	4,158	1,109	106	972	7,136	1,493	8,629	5,643	14,272
Total Operating Expenses	**99,690**	**187,864**	**5,793**	**8,719**	**54,103**	**2,859**	**5,642**	**68,241**	**432,911**	**7,164**	**440,075**	**72,159**	**512,234**
Net Controllable Cost	**61,908**	**38,805**	**2,549**	**5,936**	**26,545**	**1,843**	**3,101**	**41,105**	**181,792**	**(13)**	**181,779**	**1,011**	**182,790**
Net Non Controllable Costs	6,295	21,891	1,003	7,534	11,088	667	(331)	(25,872)	22,275		22,275		22,275
Total Portfolio Cost	**68,203**	**60,696**	**3,552**	**13,470**	**37,633**	**2,510**	**2,770**	**15,233**	**204,067**	**(13)**	**204,054**	**1,011**	**205,065**

Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement	£000's
Total Service Analysis Cost	**205,065**
Add Services Not Included in Main Analysis	(818)
Add Amounts Reported to Management Outside Services	(133,723)
Add Amounts Not Reported to Management	(10,908)
Remove Amounts Reported to Management Not Included in Cost of Services	138,345
Cost of Services in Comprehensive Income and Expenditure Statement	**197,961**

Reconciliation to Subjective Analysis

	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Cost of Services	Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(153,906)	(2,262)	(171)	(4,199)	6,636	(153,902)		(153,902)
Government Grants & Contributions	(175,538)	(113,508)	(98,739)	18,256	98,739	(270,790)	(111,497)	(382,287)
Interest and Investment Income			(654)		654	0	(689)	(689)
Income From Council Tax			(1,042)		1,042	0	(72,012)	(72,012)
NNDR Redistribution			(43,953)		43,953	0	(43,954)	(43,954)
Total Income	**(329,444)**	**(115,770)**	**(144,558)**	**14,057**	**151,023**	**(424,692)**	**(228,152)**	**(652,844)**
Employee Expenses	104,792		56	731		105,579	18,210	123,789
Other Operating Expenses	393,170	114,952		(42,249)	(2,848)	463,025		463,025
Internal Charges	14,272			(2,300)		11,972		11,972
Depreciation, Amortisation and Impairment			(26,074)	41,128	26,074	41,128		41,128
Investment Properties						0	(1,269)	(1,269)
Interest Payable and Similar Charges			9,646		(9,646)	0	15,356	15,356
Other Miscellaneous Items			3,062		(2,113)	949		949
Draw from Balances			23,485		(23,485)	0		0
Precepts & Levies			661		(661)	0	661	661
Payments to Housing Capital Receipts Pool						0	940	940
Loss / (Gain) on Disposal of Fixed Assets						0	37,379	37,379
Total Operating Expenses	**512,234**	**114,952**	**10,836**	**(2,690)**	**(12,679)**	**622,654**	**71,277**	**693,931**
Net Non Controllable Costs	22,275			(22,275)		0		0
Surplus / Deficit on the Provision of Services	**205,065**	**(818)**	**(133,723)**	**(10,908)**	**138,345**	**197,962**	**(156,875)**	**41,087**

9. Transfers (to) / from Earmarked Reserves

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

Earmarked Reserves	Balance 31 March 2014 £000	Net Transfers In 2014/15 £000	Net Transfers Out 2014/15 £000	Balance 31 March 2015 £000
General Fund				
PFI Sinking Fund	(4,289)	(35)		(4,324)
Pay Reserve	(1,612)			(1,612)
On Street Parking	(1,845)	(528)		(2,373)
Treasury Risk Reserve	(3,063)			(3,063)
Transformation	(2,279)	(2,151)		(4,430)
General Fund Contributions to Capital	(1,857)	(1,716)		(3,573)
Medium Tern Financial Risk Reserve		(10,894)		(10,894)
Taxation Reserve		(2,000)		(2,000)
Organisational Development Reserve		(9,766)		(9,766)
Revenue Grant Reserve - Waste Services		(1,633)		(1,633)
Revenue Grant Reserve - City Deal		(3,462)		(3,462)
Accomodation Reserve		(1,815)		(1,815)
Revenue Grant Reserve - General		(1,279)		(1,279)
Other Reserves	(1,136)	(829)	233	(1,732)
	(16,081)	**(36,108)**	**233**	**(51,956)**
Schools				
School Balances	(12,506)		1,650	(10,856)
	(28,587)	**(36,108)**	**1,883**	**(62,812)**

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2014	**(53,409)**	**(28,587)**	**(2,278)**	**(6,391)**	**0**	**(7,222)**	**(97,887)**	**(739,751)**	**(837,638)**
Movement in Reserves during 2014/15									
Surplus or (deficit) on Provision of Services	41,522		(24,825)		0	0	**16,697**		**16,697**
Other Comprehensive Income and Expenditure							**0**	35,941	**35,941**
Total Comprehensive Income and Expenditure	**41,522**	**0**	**(24,825)**	**0**	**0**	**0**	**16,697**	**35,941**	52,638
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(588)						**(588)**	588	**0**
Depreciation and Impairment of Fixed Assets	(49,128)		(7,506)				**(56,634)**	56,634	**0**
Movement on Market Value of Investment Properties	(3,168)		(420)				**(3,588)**	3,588	**0**
Assets Transferred to CAPITA	(364)						**(364)**	364	**0**
Capital Grants and Contributions Applied	29,001		2,103				**31,104**	(31,104)	**0**
Capital Grants and Contributions Unapplied	278		(1)			(277)	**0**	0	**0**
Revenue Expenditure Funded from Capital Under Statute	(5,971)						**(5,971)**	5,971	**0**
Short-term Accumulating Compensated Absences	(242)						**(242)**	242	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	59						**59**	(59)	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,669)		(4,321)				**(34,990)**	34,990	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,652		2,628				**21,280**	(21,280)	**0**
Statutory Provision for the Financing of Capital Investment	2,499						**2,499**	(2,499)	**0**
Capital Receipts used for the Repayment of Loans				6,223			**6,223**	(6,223)	**0**
Voluntary Provision for the Financing of Capital Investment	0		5,130				**5,130**	(5,130)	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,060)			1,060			**0**	0	**0**
Capital expenditure charged in-year to the General Fund Balance	1,068		5,544				**6,612**	(6,612)	**0**
Amount by which council tax income and NNDR credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	12,121						**12,121**	(12,121)	**0**
Transfers to/(from) Major Repairs Reserve					68		**68**	(68)	**0**
HRA Depreciation			18,939		(18,939)		**0**	0	**0**
Financing of HRA Assets					18,871		**18,871**	(18,871)	**0**
Amortisation of Item 8 Discount			(13)				**(13)**	13	**0**
Net (loss) / gain on sale of Fxed Assets							**0**	0	**0**
Capital Receipts not matched by Disposal of	0		0				**0**	0	**0**
Capital Receipts in Year	11,218		7,374	(18,592)			**0**	0	**0**
Non-current Asset Disposals	(25,762)		(4,353)				**(30,115)**	30,115	**0**
Capital Receipts Financing of New Capital Expenditure				6,185			**6,185**	(6,185)	**0**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				2,762			**2,762**	(2,762)	**0**
Capital Grants Transfers - misclassified	(222)			(369)		591	**0**	0	**0**
	(42,278)	**0**	**25,104**	**(2,731)**	**0**	**314**	**(19,591)**	**19,591**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	(756)	0	279	(2,731)	0	314	**(2,894)**	**55,532**	**52,638**
Transfers to/(from) Earmarked Reserves (Note 9)	34,228	(34,225)	(1)	0	0	0	**2**	**(2)**	**0**
(Increase)/Decrease movement in Year	33,472	(34,225)	278	(2,731)	0	314	**(2,892)**	**55,530**	**52,638**
Balance at 31 March 2015	**(19,937)**	**(62,812)**	**(2,000)**	**(9,122)**	**0**	**(6,908)**	**(100,779)**	**(684,221)**	**(785,000)**

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013	**(29,923)**	**(26,388)**	**(3,289)**	**(7,038)**	**0**	**(9,140)**	**(75,778)**	**(689,557)**	**(765,335)**
Movement in Reserves during 2013/14									
Surplus or (deficit) on Provision of Services	63,616		(22,529)		0	0	**41,087**		**41,087**
Other Comprehensive Income and Expenditure								(113,390)	**(113,390)**
Total Comprehensive Income and Expenditure	**63,616**	**0**	**(22,529)**	**0**	**0**	**0**	**41,087**	(113,390)	**(72,303)**
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(381)						**(381)**	381	**0**
Depreciation and Impairment of Fixed Assets	(53,974)		(5,305)				**(59,279)**	59,279	**0**
Movement on Market Value of Investment Properties	(3,413)		894				**(2,519)**	2,519	**0**
Assets Transferred to CAPITA	(347)						**(347)**	347	**0**
Capital Grants and Contributions Applied	32,721		139				**32,860**	(32,860)	**0**
Capital Grants and Contributions Unapplied	(400)		(18)			418	**0**	0	**0**
Revenue Expenditure Funded from Capital Under Statute	(11,885)						**(11,885)**	11,885	**0**
Short-term Accumulating Compensated Absences Account	339						**339**	(339)	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	59						**59**	(59)	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,163)		(4,547)				**(39,710)**	39,710	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,091		2,339				**20,430**	(20,430)	**0**
Statutory Provision for the Financing of Capital Investment	6,089						**6,089**	(6,089)	**0**
Voluntary Provision for the Financing of Capital Investment	122		5,551			1,500	**7,173**	(7,173)	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(940)			940			**0**	0	**0**
Capital expenditure charged in-year to the General Fund Balance	4,963		6,486				**11,449**	(11,449)	**0**
Amount by which council tax income and NNDR credited to the Comprehensive Income and Expenditure Statement is different from council	(7,801)						**(7,801)**	7,801	**0**
Transfers to/(from) Major Repairs Reserve					68		**68**	(68)	**0**
HRA Depreciation			18,261		(18,261)		**0**	0	**0**
Financing of HRA Assets					18,193		**18,193**	(18,193)	**0**
Amortisation of Item 8 Discount			(394)				**(394)**	394	**0**
Capital Receipts not matched by Disposal of Assets	(134)		134				**0**	0	**0**
Capital Receipts in Year	17,528			(17,528)			**0**	0	**0**
Non-current Asset Disposals	(54,773)						**(54,773)**	54,773	**0**
Capital Receipts Financing of New Capital Expenditure				11,485			**11,485**	(11,485)	**0**
Other - inc Repayment of Temporary Borrowing				5,750			**5,750**	(5,750)	**0**
	(89,299)	0	23,540	647	0	1,918	**(63,194)**	**63,194**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	(25,683)	0	1,011	647	0	1,918	**(22,107)**	**(50,196)**	**(72,303)**
Transfers to/(from) Earmarked Reserves (Note 9)	2,197	(2,199)	0	0	0	0	(2)	2	**0**
(Increase)/Decrease movement in Year	(23,486)	(2,199)	1,011	647	0	1,918	**(22,109)**	**(50,194)**	**(72,303)**
Balance at 31 March 2014	**(53,409)**	**(28,587)**	**(2,278)**	**(6,391)**	**0**	**(7,222)**	**(97,887)**	**(739,751)**	**(837,638)**

11. Financing and Investment Income and Expenditure

Interest and Investment Income

2013/14 £000		2014/15 £000
(645)	Temporary Investments	(936)
(34)	HRA Cash Balances	(26)
(10)	Other	(610)
(689)		**(1,572)**

Interest Payable and Similar Charges

2013/14 £000		2014/15 £000
8,982	Interest on External Loans	8,688
575	Payments to HCC in respect of Transferred Debt	498
236	Interest on Funds held	210
5,555	PFI Schemes	6,195
8	Finance Leases	1
15,356		**15,592**

12. Property Plant and Equipment

PPE are shown at a current valuation of £1,190M, an increase of £2.2M. The basis of valuation is explained in more detail in ***Note 1r (Accounting Policies)***. The values are shown as at 31 March 2015.

a) Depreciation

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

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

b) Revaluations

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

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

c) Disposals

The £14.3M (2013/14 £37.4M) loss on disposal of non-current assets, shown within the Comprehensive Income and Expenditure Statement, includes transfers of ownership from the Council to Academy Schools and Foundation Trust Schools of approximately £12.7M (2013/14 £37.1M).

Movement in Property, Plant & Equipment (PP&E) 2014/15

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2014	508,506	638,738	41,263	167,078	1,067	9,149	9,854	**1,375,655**	92,450
Additions	30,138	7,136	11,932	18,296	0	0	2,920	**70,422**	6,845
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		9,214			0	(127)		**9,087**	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,669)	(21,580)			0	(1,442)	0	**(29,691)**	0
Derecognition-Disposals	(4,353)	(15,977)			0	(4,022)	0	**(24,352)**	
Derecognitions- Fully Depreciated			(4,733)					**(4,733)**	
Other Reclassifications	0	562			0	(2,575)	(1,855)	**(3,868)**	
At 31 March 2015	**527,622**	**618,093**	**48,462**	**185,374**	**1,067**	**983**	**10,919**	**1,392,520**	**99,295**
Accumulated Depreciation and Impairment									
At 1 April 2014	(18,193)	(133,624)	(10,158)	(24,231)	(49)	(1,593)		**(187,848)**	(10,748)
Depreciation Charge	(18,871)	(15,059)	(2,991)	(3,646)		(312)		**(40,879)**	(2,604)
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,193							**18,193**	
Derecognition-Disposals		2,334	4,733			970		**8,037**	
At 31 March 2015	**(18,871)**	**(146,349)**	**(8,416)**	**(27,877)**	**(49)**	**(935)**	**0**	**(202,497)**	**(13,353)**
Net Book Value									
At 31 March 2015	**508,751**	**471,744**	**40,046**	**157,497**	**1,018**	**48**	**10,919**	**1,190,023**	**85,942**
At 31 March 2014	**490,313**	**505,114**	**31,105**	**142,847**	**1,018**	**7,556**	**9,854**	**1,187,807**	**81,701**

	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		193	40,046	157,497	1,018		10,919	**209,673**
Valued at Fair Value in:								
2014/15	508,751	223,475						**732,226**
2013/14		33,870				48		**33,918**
2010/11		49,481						**49,481**
2009/10		39,283						**39,283**
2008/09		125,443						**125,443**
Net Book Value as at 31 March 2015	508,751	471,744	40,046	157,497	1,018	48	10,919	1,190,023

Movement in Property, Plant & Equipment (PP&E) 2013/14

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2013	469,975	698,907	33,425	152,516	1,058	9,149	5,323	**1,370,353**	83,910
Additions	30,524	10,969	11,282	14,562			4,088	**71,425**	7,409
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		7,557			(18)			**7,539**	325
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,479	(20,259)			(55)		(958)	**(7,793)**	806
Derecognition-Disposals	(5,929)	(42,203)						**(48,132)**	
Derecognitions- Fully Depreciated			(3,444)					**(3,444)**	
Other Reclassifications	457	(16,233)			82		1,401	**(14,293)**	
At 31 March 2014	**508,506**	**638,738**	**41,263**	**167,078**	**1,067**	**9,149**	**9,854**	**1,375,655**	**92,450**
Accumulated Depreciation and Impairment									
At 1 April 2013		(123,774)	(10,595)	(20,874)	(41)	(1,388)		**(156,672)**	(8,393)
Reclassifications		2,164			(8)			**2,156**	
Depreciation Charge	(18,193)	(16,405)	(3,007)	(3,357)		(205)		**(41,167)**	(2,355)
Derecognition-Disposals		4,391	3,444					**7,835**	
At 31 March 2014	**(18,193)**	**(133,624)**	**(10,158)**	**(24,231)**	**(49)**	**(1,593)**	**0**	**(187,848)**	**(10,748)**
Net Book Value									
At 31 March 2014	**490,313**	**505,114**	**31,105**	**142,847**	**1,018**	**7,556**	**9,854**	**1,187,807**	**81,701**
At 31 March 2013	**469,975**	**575,133**	**22,830**	**131,642**	**1,017**	**7,761**	**5,323**	**1,213,681**	**75,517**

Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to cost £28.7M. Similar commitments at 31 March 2014 were £32.1M. The major commitments are:

	£000
HRA - Modern Facilities	18,087
HRA - Safe Wind and Weather Tight	2,879
HRA - Estate Regeneration	1,531
Southampton New Arts Centre (SNAC)	1,190
HRA - Well Maintened Communal Facilities	914
HRA - Warm and Energy Efficient	623
Other Various Minor Commitments	3,495
Total	**28,719**

13. Heritage Assets

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

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

- Archives;

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

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

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			
1 April 2013	190,000	7,100	197,100
Additions		8	8
31 March 2014	**190,000**	**7,108**	**197,108**
Accumulated Depreciation and Impairment			
1 April 2013		(384)	(384)
Charge for year		(352)	(352)
31 March 2014	**0**	**(736)**	**(736)**
Net Book Value			
31 March 2014	**190,000**	**6,372**	**196,372**
31 March 2013	**190,000**	**6,716**	**196,716**

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
1 April 2014	190,000	7,108	197,108
Additions		14	14
31 March 2015	**190,000**	**7,122**	**197,122**
Accumulated Depreciation and Impairment			
1 April 2014	0	(736)	(736)
31 March 2015	**0**	**(736)**	**(736)**
Net Book Value			
31 March 2015	**190,000**	**6,386**	**196,386**
31 March 2014	**190,000**	**6,372**	**196,372**

HERITAGE ASSETS: FIVE-YEAR SUMMARY OF TRANSACTIONS

Cost of Acquisitions of Heritage Assets	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**	**2013/14 £000**	**2014/15 £000**
Historic Buildings and Ancient Monuments	2,665	1,647	112	8	**14**
Total Cost of Purchases	2,665	1,647	112	8	**14**
Impairment/ Depreciation					
Historic Buildings and Ancient Monuments	(3,299)	(236)	(42)	(352)	**0**
Total Impairment/ Depreciation	(3,299)	(236)	(42)	(352)	**0**

a) Archives

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

b) Works of Art

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

c) Archaeology

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

d) Local and Maritime Collections

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

e) Additions and Disposals of Heritage Assets

There were £14K (£8K 13/14) of Heritage Asset additions and no disposals in either current or previous year.

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:

2013/14 £000		2014/15 £000
(6,636)	Rental Income	(6,777)
2,848	Operating Expenditure	2,203
(3,788)	**Net (Gains) / Losses**	**(4,574)**
2,519	Net (gains)/losses from fair value adjustments	3,588
(1,269)	**Net (Income) / Expenditure**	**(986)**

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:

	2013/14 £000	2014/15 £000
Balance at start of year	**120,580**	**112,352**
Additions:		
Purchases	63	63
Subsequent Expenditure		
Disposals	(5,462)	(7,555)
Net gains / (losses) from fair value adjustments	(2,519)	(3,588)
Transfers		
(to) / from Property, Plant and Equipment	(310)	154
Balance at End of Year	**112,352**	**101,426**

15. Intangible Assets

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

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

Purchased Software

	31 March 2014	31 March 2015
	£000	£000
Gross carrying amount	3,013	4,471
Accumulated amortisation	(1,626)	(2,007)
Net Carrying Amount at Start of the Year	**1,387**	**2,464**
Purchases	1,458	2,816
Amortisation for the period	(381)	(588)
Net Carrying Amount at End of the Year	**2,464**	**4,692**

16. Assets Held for Sale

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

	2013/14	2014/15
	£000	£000
Balance at Start of Year	**7,716**	**4,627**
Assets newly classified as held for sale from:		
Property, Plant and Equipment	12,449	3,714
Impairment losses to CIES	(9,968)	(4,258)
Assets Sold	(5,570)	(1,512)
Balance at End of Year	**4,627**	**2,571**

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

Financial Liabilities

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

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

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,

- Overdraft with Lloyds bank,
- Finance leases on land and buildings,
- Private Finance Initiative contracts detailed in ***Note 32 (PFI and Similar Contracts)***, and
- Trade payables for goods and services received.

Financial Assets

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

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

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

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

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

Balances in money market funds and call accounts at 31 March 2015 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

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

b) Financial Instruments Balances

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

Financial Liabilities	Long Term		Short Term		Total	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Loans at amortised cost:						
- Principal sum borrowed	243,310	231,805	30,881	20,859	274,191	252,664
- Accrued interest			1,314	1,208	1,314	1,208
- EIR adjustments					0	0
Total Borrowing	**243,310**	**231,805**	**32,195**	**22,067**	**275,505**	**253,872**
Loans at amortised cost:						
- Bank Overdraft			6,261	7,709	6,261	7,709
Total Cash Overdrawn	**0**	**0**	**6,261**	**7,709**	**6,261**	**7,709**
Liabilities at amortised cost:						
- Finance leases	20	9			20	9
- PFI arrangements	59,990	64,786			59,990	64,786
Total Long-term Creditors	**60,010**	**64,795**	**0**	**0**	**60,010**	**64,795**
Liabilities at amortised cost:						
- Deferred Liabilities	15,645	15,019	652	626	16,297	15,645
Total Other Long-term Liabilities	**15,645**	**15,019**	**652**	**626**	**16,297**	**15,645**
Liabilities at amortised cost:						
- Finance leases			129	11	129	11
- PFI arrangements			1,719	2,046	1,719	2,046
- Trade payables			10,143	9,918	10,143	9,918
Included in Creditors	**0**	**0**	**11,991**	**11,975**	**11,991**	**11,975**
Total Financial Liabilities	**318,965**	**311,619**	**51,099**	**42,377**	**370,064**	**353,996**

Financial Assets	Long Term 31 March 2014 £000	Long Term 31 March 2015 £000	Short Term 31 March 2014 £000	Short Term 31 March 2015 £000	Total 31 March 2014 £000	Total 31 March 2015 £000
Loans and receivables:						
- Principal at amortised cost			18,000	0	18,000	0
- Accrued interest			87	65	87	65
Available for sale investments:						
- Principal at amortised cost	3,036	21,622	0	13,804	3,036	35,426
- Accrued interest			140	423	140	423
- EIR adjustments	649	649	2	(3)	651	646
- Fair value adjustments	(238)	568	0	4	(238)	572
Total Investments	**3,447**	**22,839**	**18,229**	**14,293**	**21,676**	**37,132**
Loans and receivables:						
- Cash			126	115	126	115
- Cash equivalent at amortised cost			48,051	54,808	48,051	54,808
- Accrued interest			31	42	31	42
Total Cash and Cash Equivalents	**0**	**0**	**48,208**	**54,965**	**48,208**	**54,965**
Loans and receivables:						
- Trade receivables			9,101	8,921	9,101	8,921
- Loans made for service purposes	9	8			9	8
Included in Debtors	**9**	**8**	**9,101**	**8,921**	**9,110**	**8,929**
Total Financial Assets	**3,456**	**22,847**	**75,538**	**78,179**	**78,994**	**101,026**

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2015/16.

c) Offsetting Financial Assets and Liabilities

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

d) Financial Instruments – Gains and Losses

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

	2014/15				2013/14
	Financial Liabilities	Financial Assets			
	Amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	Total £000	Total £000
Interest expense	15,457			15,457	15,221
Losses on derecognition	135			135	135
Interest Payable and Similar Charges	**15,592**	**0**	**0**	**15,592**	**15,356**
Interest income		(1,483)		(1,483)	(219)
Gains on derecognition	(89)			(89)	(470)
Interest and Investment Income	**(89)**	**(1,483)**	**0**	**(1,572)**	**(689)**
Gains on revaluation			(572)	(572)	0
Losses on revaluation				0	238
Amounts recycled to the I&E Account after impairment			(572)	(572)	238
Impact of revaluation in Other Comprehensive Income					
Net Gain / (Loss) for the Year	**15,503**	**(1,483)**	**(572)**	**13,448**	**14,905**

e) Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2015, using the following assumptions:

- The fair value of loans from the PWLB have been discounted at the published interest rates for new certainty rate loans with an identical remaining term to maturity arranged on 31 March 2015.
- The fair values of long-term “Lender’s Option Borrower’s Option” (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate on 31 March 2015 plus a margin for local authority credit risk and adding the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to Bloomberg’s proprietary model for Bermudan cancellable swaps. Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The Fair value of PFI / Finance Lease Liabilities has been calculated by discounting the future principal and interest payments.
- Other long-term loans and investments have been calculated by discounting the contractual cash flows (excluding service charge elements) at the market rates for similar instruments on 31 March 2015 (AA corporate bond yield).
- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

The fair value of long-term liabilities is higher than the carrying amount because the authority’s portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The fair value of long term asset at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Balance Sheet 31 March 2014 £000	Fair Value 31 March 2014 £000		Balance Sheet 31 March 2015 £000	Fair Value 31 March 2015 £000
		Financial Liabilities		
281,766	277,001	Loans Outstanding	261,581	294,202
16,297	16,297	Deferred Liabilities	15,645	15,645
61,858	105,869	PFI/Finance Lease Liabilities	66,852	111,777
10,143	10,143	Trade Payables (Creditors)	9,918	9,918
370,064	**409,310**	**Total Financial Liabilities**	**353,996**	**431,542**
		Financial Assets		
3,447	3,449	Long Term Investments	22,839	22,839
66,437	66,437	Short Term investments	69,258	69,258
9,110	5,629	Trade Receivables (Debtors)	8,929	5,533
78,994	**75,515**	**Total Financial Assets**	**101,026**	**97,630**

f) Financial Instruments – Risks

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

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the 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

Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity. The main risks covered are:

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

g) Credit Risk

Investments

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

The strategy stated that 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 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 of £30M was 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 £92M 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 2015 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement for 2014/15, approved by Full Council on 12 February 2014. The 2014/15 Treasury Strategy can be seen as Item 87 on the Council Meeting Agenda found via the following web link:

http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4

The Credit quality of Council's investments is enhanced by collateral held - £16.1M in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2015 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

	Long Term		Short Term	
Credit Rating	2014	2015	2014	2015
	£000	£000	£000	£000
AAA	3,447	14,298	36	2,271
AA+		3,246		138
AA			50	5,932
AA-			24,315	25,380
A+			10,656	17,443
A			21,055	16,080
A-			10,325	2,014
Unrated pooled funds		5,295		
Total Investments	**3,447**	**22,839**	**66,437**	**69,258**

The above analysis shows that all deposits outstanding as at 31 March 2015 met the Council's minimum credit rating criteria of A- or above.

Trade Receivables

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

Trade Debtors and Impairment Provision

	Outstanding 31 March 2014	Outstanding 31 March 2015
	£000	£000
General Fund		
Trade Debtors	5,003	4,818
Trade Debtors Impairment Provision	(1,553)	(1,497)
HRA		
Trade Debtors	4,098	4,103
Trade Debtors Impairment Provision	(1,928)	(1,899)

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 done by ensuring that no more than 45% of the Council's borrowing matures in any one financial year.

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

The maturity analysis of the principal borrowed as at 31 March 2015 was as follows:

Outstanding 31 March 2014	% of Total Debt Portfolio	Total Borrowing	Outstanding 31 March 2015	% of Total Debt Portfolio
£000	**%**	**Source of Loan**	**£000**	**%**
254,815	93	Public Works Loan Board	243,310	96
19,376	7	Other Financial Institutions	9,354	4
274,191	**100**		**252,664**	**100**
		Analysis of Loans by Maturity		
30,881	11	Less than 1 Year *	20,859	8
11,505	4	Between 1 and 2 years	11,505	4
34,515	13	Between 2 and 5 years	33,989	13
58,443	21	Between 5 and 10 years	47,464	19
10,000	4	Between 25 and 30 years	10,000	4
5,000	2	Between 30 and 35 years	5,000	2
42,000	15	Between 35 and 40 years	42,000	17
54,850	20	Between 40 and 45 years	54,850	22
26,997	10	Over 45 years	26,997	11
274,191	**100**		**252,664**	**100**

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

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

Loans and Other Long term Liabilities Outstanding (Nominal Value)

	Outstanding 31 March 2014	Outstanding 31 March 2015
Source	**£000**	**£000**
Public Works Loan Board	254,815	243,310
Market Debt	9,000	9,000
Temporary Borrowing	10,376	354
Deferred Liabilties	16,297	15,645
PFI / Finance Lease Liabilities	61,857	66,852
Total	**352,345**	**335,161**

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2015 £136M (80%) of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and £35M (20%) to variable rates.

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

	£000
Increase in interest payable on variable rate borrowings	239
Increase in interest payable on variable rate investments	
Increase in government grant receivable for financing costs	
Impact on the Provision of Services (Surplus / Deficit)	**239**
Share of overall impact debited/credited to HRA	106
Decrease in fair value of fixed rate investment assets	
Impact on Other Comprehensive Income and Expenditure	**0**
Decrease in fair value of fixed rate borrowings/liabilities *(no impact on Comprehensive Income and Expenditure)*	(33,061)

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

Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £10M. As at 31st March the Authority had £5M invested in the Local Authority Property Fund which was valued at £5.3M A 5% fall in commercial property prices would result in a £0.265M charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

18. Debtors

a) Long Term Debtors

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

- **Mortgages** – These are loans outstanding to borrowers either for the purchase of Council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties.
- **IT Assets transferred to Capita** – A balance for Deferred Consideration (within Long Term Debtors) was established, in 2007/08, with the Net Book Value of the assets (£3.3M). The deferred consideration (total cost including financing charges) is being written down to zero over the ten year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement (£423,600). This is then reversed out through the MiRS. As the Council has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the ten year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£77,100). Therefore the net reduction in Long term debtors is £346,500. More information relating to the contract with Capita is included in ***Note 1x) (Accounting Policies).***
- **Capita Prepayment** – The Council made a prepayment of approximately £17.1M to Capita in 2012/13, allowing them to achieve financing savings, the benefit of which flows through to the Council in future years. The prepayment will be written down over the remaining life of the Contract. The balance carried forward as at 31 March 2015 is approximately £7.8M, the 2015/16 write down of £3.7M being shown within short term debtors Capita balance.
- **Other** – The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

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

31 March 2014 £000		31 March 2015 £000
	Mortgages	
9	Sale of Council Houses	8
	Other	
1,150	IT Assets transferred to Capita	786
7,755	Capita Prepayment	4,076
78	Other	134
8,992		**5,004**

b) Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2015. Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

31 March 2014	Debtors	31 March 2015
£000		£000
	Government	
5,301	HM Revenue & Customs (VAT)	5,792
4,867	Other Departments	1,215
10,168		7,007
	Public Sector Organisations	
1,693	Hampshire County Council	2,681
430	Other Local Government	529
57	Other Public Sector	117
4,738	Other Health Bodies	868
6,918		4,195
	Taxpayers	
8,556	Council Tax	9,601
(6,081)	Council Tax Impairment	(7,035)
1,827	Non-Domestic Rates	1,830
(611)	Non-Domestic Rates Impairment	(720)
3,691		3,676
	General Fund - Other Debtors	
6,357	Housing Benefit	7,466
(4,369)	Housing Benefit Impairment Provision	(5,016)
3,738	CAPITA	4,968
5,003	Trade Debtors	4,818
(1,553)	Trade Debtors Impairment Provision	(1,497)
10,149	Sundry Debtors	15,359
(790)	Sundry Debtors Impairment Provision	(861)
18,535		25,237
	Housing Revenue Account - Other Debtors	
4,098	Trade Debtors	4,103
(1,928)	Trade Debtors - Impairment Provision	(1,899)
1,856	Sundry Debtors	1,408
(570)	Sundry Debtors - Impairment Provision	(348)
3,456		3,264
42,768	**Total Debtors**	**43,379**

19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by over £7.7M, the Council’s actual bank account balance at the Bank was £0.45M at 31 March 2015. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council’s bank account will not actually go overdrawn by £7.7M because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

31 March 2014 £000		31 March 2015 £000
(6,261)	Bank Accounts	(7,709)
(6,261)		(7,709)
18,129	Money Market Funds	34,310
29,953	Call Accounts	20,540
126	Petty Cash	115
48,208		54,965
41,947		**47,256**

20. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2015.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff which are not paid over to HMRC by 31 March 2015.

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

Creditors

31 March 2014 £000		31 March 2015 £000
	Government	
	Department for Communities & Local Government	13,837
2,611	HM Revenue & Customs (PAYE & National Insurance)	2,752
1,452	Department for Work & Pensions (DWP)	1,200
860	Other Departments	455
4,923		18,244
	Public Sector Organisations	
1,610	Hampshire County Council	1,497
2,607	Hampshire County Council (Local Government Pensions)	3,313
	NHS Southampton Clinical Commissioning Group	1,219
507	Other Local Government	469
1,380	Other Public Sector	1,725
221	Other Health Bodies	111
6,325		8,334
	Taxpayers	
3,270	Council Tax / Business Rates (prepayments)	3,530
3,270		3,530
	General Fund - Other Creditors	
1,719	Finance Creditor (PFI and Hampshire Waste Contract)	2,046
2,043	Accumulated Absences Account	2,285
1,076	CAPITA	2,212
32,355	Sundry Creditors	29,548
8,843	Trade Creditors	8,669
46,036		44,760
	Housing Revenue Account - Other Creditors	
2,547	Sundry Creditors	2,553
1,300	Trade Creditors	1,249
3,847		3,802
64,401	**Total Creditors**	**78,670**

21. Provisions

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

	Balance at 31 March 2014	Additional Provisions Made in Year	Amounts used in year	Balance at 31 March 2015
	£000	£000	£000	£000
General Fund				
NDR Appeals Provision	7,421	3,663	(2,478)	8,606
General Insurance Funds	6,221	714	(1,706)	5,229
Other Provisions	1,542	2,662	(227)	3,977
	15,184	**7,039**	**(4,411)**	**17,812**
HRA	30		(30)	0
Total	**15,214**	**7,039**	**(4,441)**	**17,812**

The Provisions are estimated to be utilised as follows:

	Balance at 31 March 2015	Due within 1 Year	Due between 2 to 5 years Amounts	Over 5 years
	£000's	£000's	£000's	£000's
General Fund				
NDR Appeals Provision	8,606	5,500	3,106	0
General Insurance Funds	5,229	1,119	4,110	0
Other Provisions	3,977	2,066	1,625	286
	17,812	**8,685**	**8,841**	**286**
HRA	0			0
Total	**17,812**	**8,685**	**8,841**	**286**

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in 2014/15 and earlier years. Therefore, the Council's share of the provision (49%) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2015.

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

b) Insurance Provisions

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

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2015 amounted to £2.4M with a closing fund balance of £5.1M. With regard to the outstanding provision figure, the Council's insurers allocate a claim provision figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding provision figure however, unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The provision figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

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

c) Non Residential Charging Provision

A review of the Council's Non Residential Care Charging policy highlighted that the previous policy did not fully adhere to the national guidelines as set out by the Department of Health. It is probable that the Council has overcharged clients in respect of their contributions for the cost of their non residential care services over the period 2008/09 – 2013/14, and will be required to refund them where this has been the case. A provision has been made in the 2014/15 Financial Statements for the estimated cost of refunding these clients.

d) Other Provisions

All other provisions are individually immaterial.

22. Unusable Reserves

a) Revaluation Reserve

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

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

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

2013/14 £000		2014/15 £000
(304,614)	Balance Brought Forward	(297,824)
(9,059)	Upward revaluations of assets	(10,203)
1,520	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,116
(312,153)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(306,911)
2,500	Difference between fair value depreciation and historical cost depreciation	2,318
11,829	Accumulated Revaluations on Disposals	7,055
(297,824)	**Balance Carried Forward**	**(297,538)**

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.

2013/14 £000		**2014/15 £000**
(803,687)	Balance Brought Forward	(781,897)
	Capital Financing	
(11,485)	Usable Capital Receipts	(6,185)
(32,860)	Capital Grants & Contributions	(31,104)
(18,261)	HRA Depreciation (formerly Major Repairs Allowance)	(18,939)
(11,449)	Revenue Contributions	(6,612)
	Other Movements	
11,885	Revenue Expenditure Funded from Capital under Statute	5,971
(5,750)	Repayment of Temporary Financing	
2,519	Net gains/losses from fair value adjustments on Investment Properties	3,588
347	Deferred Considerations	364
59,660	Depreciation & Impairment	57,222
54,773	Disposals	30,115
(2,500)	Historic Cost Depreciation Adjustment	(2,318)
(11,829)	Accumulated Revaluations on Disposals	(7,055)
(13,262)	MRP	(7,629)
	Use of Capital Receipts to Repay Loans	(6,223)
2	Other	(2)
(781,897)	**Balance Carried Forward**	(770,704)

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.

2013/14		2014/15
£000		£000
418,200	Balance Brought Forward	331,390
20,650	Current Service Cost	19,640
850	Past Service Costs (added years)	860
18,210	Net Interest Costs	14,490
(20,430)	Payments to Pension Fund	(21,280)
(106,090)	Actuarial Gains /(Losses) on the Fund	45,600
331,390	**Balance Carried Forward**	**390,700**

d) Collection Fund Adjustment Account

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

2013/14		2014/15
£000		£000
(1,315)	Balance Brought Forward	6,486
(922)	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	(564)
8,723	Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	(11,557)
6,486	**Balance Carried Forward**	**(5,635)**

e) Accumulated Absences Account

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

2013/14		2014/15
£000		£000
2,382	Balance Brought Forward	2,043
(2,382)	Settlement or cancellation of accrual made at the end of the preceding year	(2,043)
2,043	Amounts accrued at the end of the current year	2,285
2,043	**Balance Carried Forward**	**2,285**

f) Deferred Capital Receipts Reserve

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

2013/14		2014/15
£000		£000
0	Balance Brought Forward	0
	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,762)
	Transfer to the Capital Receipts Reserve upon receipt of cash	
0	**Balance Carried Forward**	**(2,762)**

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

2013/14		2014/15	
£000		£000	£000
(41,087)	**Net Surplus or (Deficit) on the Provision of Services**		**(16,697)**
	Adjust net surplus or deficit on the provision of services for non cash movements		
25,380	Depreciation	40,878	
33,899	Impairment and downward valuations	15,756	
381	Amortisation	588	
(85)	Adjustments for effective interest rates	252	
347	Net PFI Debtor Adjustments	364	
(1,259)	Increase/(Decrease) in Interest Creditors	(107)	
10,686	Increase/(Decrease) in Creditors	3,220	
(41)	(Increase)/Decrease in Interest and Dividend Debtors	(260)	
1,961	(Increase)/Decrease in Debtors	1,617	
(3)	(Increase)/Decrease in Inventories	248	
19,280	Pension Liability	13,710	
8,146	Contributions to/(from) Provisions	2,598	
54,773	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	30,115	
2,519	Movement in Investment Property Values	3,588	
(3)	Other Items	(23)	
155,981			**112,544**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(32,441)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(31,382)	
0	Proceeds from the sale of short and long term investments	6	
(17,645)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(18,742)	
(50,086)			**(50,118)**
64,808	**Net Cash Flows from Operating Activities**		**45,729**

b) Operating Activities – Interest

2013/14 £000		2014/15 £000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
650	Interest Received	1,564
(16,523)	Interest Paid	(15,520)

c) Cash Flows from Investing Activities

2013/14 £000		2014/15 £000
	Cash Flows from Investing Activities	
(67,618)	Property, Plant and Equipment Purchased	(67,583)
(26,000)	Purchase of short term investments	(47,883)
17,667	Proceeds from the sale of property plant and equipment, investment property and intangible assets	15,778
23,000	Proceeds from short-term and long-term investments	33,000
29,939	Other Receipts from Investing Activities - Capital Grants & Contributions Received	37,210
(23,012)	**Total Cash Flows from Investing Activities**	**(29,478)**

d) Cash Flows from Financing Activities

2013/14 £000		2014/15 £000
	Cash Flows from Financing Activities	
20,000	Cash receipts of short and long term borrowing	0
(458)	Billing Authorities - Council Tax and NNDR adjustments	13,063
(62,484)	Repayment of Short-Term and Long-Term Borrowing	(22,157)
(2,463)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,848)
(45,405)	**Total Cash Flows from Financing Activities**	**(10,942)**

e) Make-up of Cash and Cash Equivalents

2013/14 £000		2014/15 £000
	Makeup of Cash and Cash Equivalents	
126	Cash and Bank Balances	115
48,082	Cash Investments - regarded as cash equivalents	54,850
(6,261)	Bank Overdraft	(7,709)
41,947		**47,256**

24. Agency Services

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

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

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

Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs proportionately to the billing authority (49%), Government (50%) and Hampshire Fire and Rescue Authority

(1%). There will therefore be a debtor/creditor position between the billing authority, the Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from NDR Taxpayers.

25. Members' Allowances

The total of members' allowances paid in 2014/15 was £695K (2013/14 was £701K) as detailed in the table below.

	31 March 2014 £000	31 March 2015 £000
Salaries	532	544
Allowances	165	148
Expenses	4	3
Total	**701**	**695**

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. This amount was increased in 2003/04 from £40,000 and has not been updated since.

Band £			Number of Employees 2013/14 Schools	2013/14 Other	2013/14 Total	2014/15 Schools	2014/15 Other	2014/15 Total
50,000	-	54,999	47	31	78	36	33	69
55,000	-	59,999	27	9	36	19	19	38
60,000	-	64,999	21	6	27	22	7	29
65,000	-	69,999	14	6	20	9	6	15
70,000	-	74,999	5	7	12	4	5	9
75,000	-	79,999	2	5	7	3	5	8
80,000	-	84,999	2	4	6	1	3	4
85,000	-	89,999	2	2	4	1	2	3
90,000	-	94,999	4	0	4	1	0	1
95,000	-	99,999	1	1	2	1	0	1
100,000	-	104,999	0	1	1	0	2	2
105,000	-	109,999	0	0	0	1	1	2
110,000	-	114,999	0	3	3	0	1	1
115,000	-	119,999	0	1	1	0	2	2
120,000	-	124,999	0	1	1	0	0	0
125,000	-	129,999	0	0	0	0	0	0
130,000	-	134,999	0	1	1	0	0	0
135,000	-	139,999	1	1	2	0	0	0
140,000	-	144,999	0	0	0	0	1	1
145,000	-	149,999	0	1	1	0	0	0
150,000	-	154,999	0	0	0	0	1	1
			126	**80**	**206**	**98**	**88**	**186**

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Regulation 7 of the Accounts and Audit (England) Regulations 2011. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2013/14.

2014/15

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2014/15	Pensions contributions (see Note 4)	Total Remuneration including pension contributions 2014/15
	£	£	£	£	£	£	£
Chief Executive - Dawn Baxendale	152,288	-	-	-	152,288	20,079	172,367
Assistant Chief Executive - Suki Sitaram	89,671	480	-	-	90,151	11,747	101,898
Director of Corporate Services - Mark Heath (see note 1)	119,697	122	-	-	119,819	15,680	135,500
Director of People - Alison Elliott	143,308	480	-	-	143,788	17,685	161,473
Director of Place (Environment & Economy) until 24/02/2015 - Stuart Love (see note 1)	118,398	-	-	-	118,398	14,187	132,585
Director of Public Health - Andrew Mortimore	81,217	379	-	-	81,596	10,639	92,235
Head of Legal & Democratic Services - Richard Ivory (see note 2)	9,145	230	-	-	9,376	1,198	10,574
Chief Financial Officer - Andrew Lowe	102,990	122	-	-	103,112	13,492	116,604
Head of Strategic Human Resources - Mike Watts	81,493	-	-	-	81,493	10,676	92,169
	898,207	**1,815**	**-**	**-**	**900,022**	**115,383**	**1,015,405**

Note 1
The Director of Corporate Services has covered the vacant Director of Place post on an interim basis since 01/03/2015.

Note 2
Since 01/03/2015 the statutory Monitoring Officer role transferred from the Director of Corporate Services to the Head of Legal & Democratic Services on an interim basis and therefore the remuneration for the Head of Legal & Democratic Services for March 2015 is disclosed here.

Note 3
There were no bonuses paid.

Note 4
In 2014/15 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

2013/14

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2013/14	Pensions contributions (see Note 8)	Total Remuneration including pension contributions 2013/14
	£	£	£	£	£	£	£
Chief Executive - Dawn Baxendale	145,720	182	-	-	145,903	19,089	164,992
Assistant Chief Executive - Suki Sitaram (see note 1)	87,120	480	-	-	87,600	11,413	99,013
Director of Corporate Services - Mark Heath	116,482	122	-	-	116,604	15,259	131,863
Director of People - Alison Elliott (see note 2)	132,375	772	-	-	133,147	17,341	150,488
Director of Place (Environment & Economy) from 02/12/2013 - Stuart Love (see note 3)	38,514	-	-	-	38,514	5,045	43,560
Director of Public Health from 01/04/2013 - Andrew Mortimore (see note 4)	138,628	1,020	-	-	139,648	17,872	157,520
Director of Children's Services & Learning until 14/04/2013 - Clive Webster (see note 5)	4,655	23	-	-	4,678	610	5,288
Chief Financial Officer - Andrew Lowe	103,391	432	-	-	103,823	13,544	117,367
Head of Strategic Human Resources from 06/04/2013 - Mike Watts (see note 6)	79,962	-	-	-	79,962	10,475	90,437
	846,846	**3,033**	**-**	**-**	**849,879**	**110,649**	**960,528**

Note 1
Role now formally part of Strategic Leadership Team (the Council's Management Team).

Note 2
Director of Children's Services & Learning post was merged with the Director of Health & Adult Social Care post to create a new Director of People post from April 2013. Since April 2013 this post has been filled by Alison Elliott.

Note 3
This role was undertaken from March to December 2013 by John Tunney via an external company. Payment for April to December 2013 was £96,000 excluding VAT.

Note 4
Responsibility for Public Health and staff transferred from NHS from 01/04/2013.

Note 5
Director of Children's Services & Learning post deleted. Compensation for loss of office for Clive Webster is accounted for and disclosed in 2012/13 despite being received by the employee in 2013/14.

Note 6
Role now formally part of Strategic Leadership Team (the Council's Management Team).

Note 7
There were no bonuses paid.

Note 8
In 2013/14 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

b) Exit Packages

The Council terminated the contracts of a number of employees in 2014/15 incurring liabilities of £2.0M (£2.1M 2013/14) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £000	2014/15 £000
£0-£20,000	47	22	82	55	129	77	887	560
£20,001-£40,000	6	5	11	14	17	19	480	543
£40,001-£60,000	1	2	5	3	6	5	307	224
£60,001-£80,000	0	1	0	0	0	1	0	65
£80,001-£100,000	0	0	1	1	1	1	89	83
£100,001-£150,000	1	3	2	1	3	4	373	498
Total	**55**	**33**	**101**	**74**	**156**	**107**	**2,136**	**1,973**

27. External Audit Costs

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

2013/14 £000		2014/15 £000
189	Fees payable to Ernst Young with regard to external audit services carried out by the appointed auditor for the year	189
33	Fees payable to Ernst Young in respect of grant claims and returns for the year	32
(26)	Audit Commission refund on Fees	(21)
2	Other Services	4
198		**204**

28. Dedicated Schools Grants

The Council's expenditure on schools is funded by grant provided by the Department for Education (DfE) 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:

Details of the Deployment of DSG Receivable for 2014/15 are as Follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2014/15 before Academy recoupment			159,770
Academy figure recouped for 2014/15			(36,163)
Total DSG after Academy Recoupment for 2014/15			**123,607**
Plus: Brought forward from 2013/14			**1,431**
Agreed initial budgeted distribution in 2014/15	**13,908**	**111,130**	**125,038**
In year adjustments		328	328
Final Budgeted Distribution for 2014/15	**13,908**	**111,458**	**125,366**
Less: Actual central expenditure	(13,309)		(13,309)
Less: Actual ISB deployed to schools		(110,856)	(110,856)
Carry Forward to 2015/16	**599**	**602**	**1,201**

29. Related Parties

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

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and Teachers' Pension Agency as disclosed in ***Note 34 (Defined Benefit Pension Schemes)***; Hampshire Police Authority precept of £8.8M and Hampshire Fire & Rescue Authority precept of £3.5M, shown in the ***Collection Fund Accounts***, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

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

- The Chief Executive's husband is the Group Director of Neighbourhood Services for Stone Water Housing Association (formerly Raglan Housing Association). The Council made revenue payments (Supporting People Grant) of approximately £154,000 to Stonewater Housing Association/ Raglan Housing Association in 2014/15; and

  The Chief Executive was not involved in the decision making process for these transactions.

Amounts Due to or from Related Parties

As at 31 March 2015, significant monies outstanding from related parties were:

2013/14	Money Owed to SCC	2014/15
£000		£000
5,301	HM Revenues & Customs (VAT)	5,792
1,693	Hampshire County Council	2,681
6,994	**Balance Carried forward**	**8,473**
	* Non material balances removed from previous years figures	

There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of:

2013/14	Money Owed by SCC	2014/15
£000		£000
	Department for Communities & Local Government	13,837
2,611	HM Revenue & Customs (PAYE & National Insurance)	2,752
1,452	Department for Work & Pensions (DWP)	1,200
1,610	Hampshire County Council	1,497
2,607	Hampshire County Council (Local Government Pensions)	3,313
	NHS Southampton Clinical Commissioning Group	1,219
8,280	**Balance Carried forward**	**23,818**
	* Non material balances removed from previous years figures	

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

CAPITAL EXPENDITURE AND FINANCING

	2013/14 £000	2014/15 £000
Opening Capital Financing Requirement	**433,276**	**425,048**
Capital Investment		
Intangible assets	1,458	2,816
Property Plant & Equipment	64,087	63,654
PFI Scheme - Street Lighting	7,409	6,845
Revenue Expenditure Funded from Capital under Statute	11,885	5,971
Repayment of Temporary Financing	(5,750)	0
Sources of Finance		
Capital Receipts	(11,485)	(6,185)
Government grants & other contributions	(32,860)	(31,104)
HRA Depreciation (formerly Major Repairs Allowance)	(18,261)	(18,939)
Direct Revenue Financing	(11,449)	(6,612)
MRP	(13,262)	(7,629)
Use of Capital Receipts to Repay Loans		(6,223)
Closing Capital Financing Requirement	**425,048**	**427,642**
Explanation of Movements in Year		
Increase in underlying need to borrow (unsupported by Government financial assistance)	3,376	9,600
Repayment of Temporary Financing	(5,750)	0
MRP	(13,262)	(7,629)
Use of Capital Receipts to Repay Loans		(6,223)
PFI Schemes	7,409	6,845
Other Adjustments	(1)	1
Increase / (Decrease) in Capital Financing Requirement	**(8,228)**	**2,594**

31. Leases

a) Council as a Lessor

Operating Leases

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

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

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

	31 March 2014 Original £000	31 March 2014 Restated £000	31 March 2015 £000
Not later than one year	4,244	4,803	5,520
Later than one year and not later than five years	12,649	14,884	16,304
Later than five years	470,004	522,046	511,929
	486,897	**541,733**	**533,753**

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

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

32. PFI and Similar Contracts

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

a) On Balance Sheet

PFI Schools

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

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

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

Hampshire Waste Contract

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

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

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

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

PFI Street Lighting

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

b) Off Balance Sheet

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

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

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

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

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

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2014	58,379	10,966	18,974	88,319
Additions			6,845	6,845
At 31 March 2015	**58,379**	**10,966**	**25,819**	**95,164**
Depreciation & Impairment				
At 1 April 2014	(5,307)	(644)	(666)	(6,617)
Depreciation Charge for the Year	(1,327)	(644)	(633)	(2,604)
At 31 March 2015	**(6,634)**	**(1,289)**	**(1,299)**	**(9,222)**
Balance Sheet amount at 31 March 2015	**51,745**	**9,677**	**24,520**	**85,942**
Balance Sheet amount at 31 March 2014	**53,072**	**10,321**	**18,308**	**81,701**

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

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Balance 1 April 2014	34,944	10,115	16,648	61,707
New Schemes in 2014/15			6,845	6,845
Repayments	(896)	(677)	(146)	(1,719)
Balance 31 March 2015	**34,048**	**9,438**	**23,347**	**66,833**
Due within 1 Year				
Balance 1 April 2014	896	677	146	1,719
Repayments	(896)	(677)	(146)	(1,719)
Due within 1 Year	1,107	731	208	2,046
Balance 31 March 2015	**1,107**	**731**	**208**	**2,046**
Long Term Creditor Balance 31 March 2015	**32,941**	**8,707**	**23,139**	**64,787**

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

	PFI - Schools			Hampshire Waste			PFI - Street Lighting			Total
	Liability	Interest	Service Charges	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,107	2,893	2,455	731	755	5,839	208	2,578	1,116	**17,682**
within 2 to 5 years	4,585	10,631	11,454	3,559	2,387	24,613	1,336	10,018	4,767	**73,350**
within 6 to 10 years	9,019	10,647	15,752	5,101	1,163	34,951	3,385	11,329	6,713	**98,060**
within 11 to 15 years	13,944	6,095	17,973	47	0	2,120	6,531	8,748	7,662	**63,120**
within 16 to 20 years	5,393	597	5,283				11,887	3,928	8,747	**35,835**
Balance 31 March 2015	**34,048**	**30,863**	**52,917**	**9,438**	**4,305**	**67,523**	**23,347**	**36,601**	**29,005**	**288,047**

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

	BUPA Care Homes		
	Northlands	Oak Lodge	Total
	£000	£000	£000
within 1 year	2,169	1,442	3,611
within 2 to 5 years	8,674	5,769	14,443
within 6 to 10 years	10,843	7,211	18,054
within 11 to 15 years	7,959	7,211	15,170
within 16 to 20 years		6,995	6,995
Balance 31 March 2015	**29,645**	**28,628**	**58,273**

Payments for the year in respect of PFI and IFRIC 12 Service Concessions were as follows:

	Liability	Interest	Service Charges	Total
	£000	£000	£000	£000
PFI Schools	896	2,970	2,501	6,367
Hampshire Waste	677	809	5,719	7,205
PFI Street Lighting	146	2,415	1,160	3,721
BUPA Care Homes				
Northlands			2,492	2,492
Oak Lodge			1,432	1,432
Totals	**1,719**	**6,194**	**13,304**	**21,217**

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. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2014/15 the City Council paid £6.4M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £6.5M and 14.1%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are detailed in ***Note 34*** below.

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

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

The Council participates in two post employment schemes:

- **The Local Government Pension Scheme** – Administered locally by Hampshire County Council Pension Fund, this is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- **The Teachers' Pension Scheme** – Administered by Capita Teachers' Pensions this is a defined benefit scheme that is unfunded. Teachers' Pensions use a notional fund basis for calculating employers' contribution rate paid by local education authorities. However, there is no accumulation of investment assets built up to meet pension liabilities. As a result scheme liabilities cannot be attributed to individual local authorities on a consistent and reasonable basis and so in accordance with IAS19, pension costs are recorded as if the scheme was a defined contribution scheme.

b) Transactions Relating to Post-employment Benefits

In 2014/15, the Council paid an employer's contribution of £21.3M (2013/14 - £20.4M) into Hampshire County Council's Pension Fund. The employer's rate for 2014/15 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2016 is £21.3M.

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Totals	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost of Services						
Current service costs	20,650	19,640	0	0	20,650	19,640
Past service costs	850	860	0	0	850	860
Settlements and curtailments						
Financing and Investment Income and Expenditure						
Net Interest on the defined benefit liability (asset)	16,650	12,970	1,560	1,520	18,210	14,490
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	**38,150**	**33,470**	**1,560**	**1,520**	**39,710**	**34,990**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Actuarial (Gains) / Losses	(105,180)	43,940	(910)	1,660	(106,090)	45,600
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(67,030)**	**77,410**	**650**	**3,180**	**(66,380)**	**80,590**
Movement in Reserves Statement						
Reversal of net charges made for retirement benefits in accordance with the Code	(38,150)	(33,470)	(1,560)	(1,520)	(39,710)	(34,990)
Actual amount charged against the General Fund Balance for Pensions in the Year:						
Employers' contributions payable to scheme	**18,070**	**18,890**			18,070	18,890
Retirement benefits payable to pensioners			**2,360**	**2,390**	2,360	2,390

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2015 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £390.7M (2013/14 £331.4M) 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.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	**£000**	**£000**	**£000**	**£000**
Present value of funded Liabilities in scheme (LGPS)	726,930	832,180	937,560	852,250	970,970
Present value of unfunded liabilities (Teachers & LGPS)	33,900	36,290	39,260	37,550	38,340
Total present value of liabilities	760,830	868,470	976,820	889,800	1,009,310
Fair value of Share of Assets in the Fund (as per Accounts)	(457,280)	(483,950)	(558,620)	(558,410)	(618,610)
Net (Asset) / Liability	**303,550**	**384,520**	**418,200**	**331,390**	**390,700**

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2013. 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 2015.

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

Reconciliation of Present Value of Scheme Liabilities

Unfunded 2013/14 £000	Funded Liabilities 2013/14 £000		Unfunded 2014/15 £000	Funded Liabilities 2014/15 £000
39,260	937,560	Opening Balance at 1 April	37,550	852,250
	20,650	Current Service Cost		19,640
1,560	41,780	Interest costs	1,520	36,240
	5,750	Contributions by Participants		5,550
(20)	(57,670)	Actuarial Gains / (Losses) on liabilities - experience	(360)	(5,580)
1,170	(20,110)	Actuarial Losses/(Gains) on liabilities - demographic assumptions	0	0
(2,060)	(52,320)	Actuarial Gains / (Losses) liabilities on - financial assumptions	2,020	86,720
(2,360)	(24,240)	Net Benefits Paid Out	(2,390)	(24,710)
-	850	Past Service Costs (added years)		860
37,550	**852,250**	**Closing Balance at 31 March**	**38,340**	**970,970**

Reconciliation of Fair Value of Schemes Assets

2013/14 £000		2014/15 £000
(558,620)	Opening Balance at 1 April	(558,410)
(25,130)	Interest Income on plan assets	(23,270)
24,920	Actuarial Gains / (Losses) on plan assets	(37,200)
(18,070)	Contributions	(18,890)
(5,750)	Contributions by participants	(5,550)
24,240	Net benefits paid out	24,710
(558,410)	**Closing Balance 31 March**	**(618,610)**

e) Basis for Estimating Assets and Liabilities

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

	2013/14	2014/15
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	24.4	24.5
Women	26.2	26.3
Longevity at 65 for future pensioners (currently aged 45):		
Men	26.5	26.6
Women	28.5	28.6
RPI Inflation	3.4%	2.9%
CPI Inflation	2.4%	1.8%
Rate of general long-term increase in salaries	3.9%	3.3%
Rate of increase in pensions in payment	2.4%	1.8%
Pension accounts revaluation rate	N/a	1.8%
Rate of increase to deferred pensions	2.4%	1.8%
Discount rate	4.3%	3.2%
Commutation:		
Take-up option to convert maximum amount permitted (including any lump sum from pre 2008 service) pension entitlements	70.0%	70.0%

f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below.

	Asset Split at 31 March 2014			Asset Split at 31 March 2015		
	Quoted (%)	Unquoted (%)	Total (%)	Quoted (%)	Unquoted (%)	Total (%)
Equities	57.6	3.2	60.8	54.9	2.9	57.8
Property	7.5	0.0	7.5	1.1	6.9	8.0
Government Bonds	23.5	0.1	23.6	25.0	0.4	25.4
Corporate Bonds	1.4	0.2	1.6	1.5	0.1	1.6
Cash	3.8	0.0	3.8	3.7	0.0	3.7
Other Assets	0.2	2.5	2.7	0.0	3.5	3.5
Total	**94.0**	**6.0**	**100.0**	**86.2**	**13.8**	**100.0**

g) Actuarial Gain / Losses Relating to Pensions

The actuarial gains/losses, following changes to IAS19, are identified as movements on the pensions Reserve in 2014/15 and analysed into appropriate categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2015.

Actuarial (Gain)/ Loss for Year

	2010/11 £000	%	2011/12 £000	%	2012/13 Restated £000	%	2013/14 £000	%	2014/15 £000	%	
Difference between the expected and actual return on assets	920	0.2	8,250	1.7	-		-		-	-	of scheme assets
Experience gains and losses on pension liabilities	(3,240)	(0.4)	8,440	1.0	-		-		-	-	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(12,660)	(1.7)	59,360	6.8	-		-		-	-	of scheme liabilities
Actuarial Gains / (Losses) on plan assets					(49,690)	(8.9)	24,920	4.5	(37,200)	(6.0)	of scheme assets
Actuarial Gains / (Losses) on liabilities - experience					(620)	(0.1)	(57,690)	(6.5)	(5,940)	(0.6)	of scheme liabilities
Actuarial Losses/(Gains) on liabilities - demographic assumptions					0	0.0	(18,940)	(2.1)	0	0.0	of scheme liabilities
Actuarial Gains / (Losses) liabilities on - financial assumptions					68,500	7.0	(54,380)	(6.1)	88,740	8.8	of scheme liabilities
	(14,980)		76,050		18,190		(106,090)		45,600		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2015 is a loss of £250.4M.

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

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) Health and Safety - Asbestos

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

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 2014/15 there were no relationships which would require the Council to produce Group Accounts.

37. Capital and Revenue Grants and Contributions Receipts in Advance

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

2013/14		2014/15
£000		£000
(23,577)	Balance Brought Forward	(19,354)
(21,374)	Amounts Received in Year	(25,417)
25,597	Amounts Applied to Finance Capital in year	22,839
(19,354)	**Balance Carried forward**	**(21,932)**

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

2013/14		2014/15	
£000		£000	£000
	Grants		
	Department for Children, Schools and Families		
(8,699)	Basic Need Grant	(1,354)	
(869)	Schools Devolved Formula Grant	(1,112)	
(3,637)	Capital Maintenance Grant	(2,225)	
(472)	Other	(621)	
(13,677)			(5,312)
(2,815)	Department for Communities and Local Government		(2,269)
(6,178)	Department for Transport		(11,752)
(26)	Department for Business Innovation & Skills		(5,434)
(5,558)	Other		(2,253)
(28,254)			**(27,020)**
(4,188)	**Contributions**		(4,362)
(32,442)	**Total**		**(31,382)**
(21,481)	**Credited to Capital Grants and Contributions CIES**		**(26,176)**
(10,961)	**Credited to Cost of Services**		**(5,206)**
(32,442)	**Total**		**(31,382)**

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

2013/14 £000		2014/15 £000
	General Government Grants	
(72,687)	Revenue Support Grant	(59,408)
(2,001)	Housing and Council Tax Benefit Grant	(1,944)
(2,992)	DCLG New Homes Bonus Scheme	(3,333)
(2,373)	DCLG - Waste Support Grant	(2,645)
(3,061)	Education Services Grant	(3,007)
(769)	Section 31 Grants	(1,746)
(6,133)	Other	(1,450)
(90,016)		**(73,533)**
	Credited to Services	
(123,585)	Dedicated Schools Grant (DSG)	(123,935)
(14,313)	Public Health Grant	(15,050)
(114,997)	Housing Benefit Grant	(114,060)
(7,490)	Pupil Premium	(9,329)
(5,859)	Private Finance Initative (PFI)	(5,859)
(2,241)	Local Sustainable Transport Fund	(1,884)
(4,266)	Other Grants	(2,281)
(272,751)		**(272,398)**

38. Non-Domestic Rates Redistribution

Business Rate Retention has been implemented from 1 April 2013

	Non Domestic Rates Redistribution	
2013/14 £000		**2014/15 £000**
(49,534)	SCC Retained Business Rates	(45,562)
8,722	SCC Share of Surplus/ (Deficit)	(2,911)
(1,549)	Top Up Payment	(1,579)
(1,593)	Safety Net Payment	0
(43,954)		**(50,052)**

39. Pooled Budgets

Section 75 of the National Health Services Act 2006 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. From 1 April 2004 the Council has been required to maintain memorandum accounts in respect of pooled fund accounts and the table below shows pooled funds with income/expenditure in excess of £3M which are hosted by Southampton City Council.

Residual, Domiciliary Care & Continuing Care Services

Partnership between Southampton City Council and the Clinical Commissioning Group (previously PCT) to commission residential, domiciliary care and continuing care services for former residents of a Locally Based Hospital Unit in Southampton.

2013/14 £000	Locality Based Hospital Units	2014/15 £000
	Funding - Contributions / Grants	
(6)	Brought Forward	(17)
(1,693)	Southampton City Council	(1,693)
(1,777)	Southampton Clinical Commissioning Group	(1,777)
(3,476)		**(3,487)**
3,459	**Expenditure**	3,481
(17)	**Carried Forward**	**(6)**

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.

The main legacies are:

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

Minor legacies which consist of several funds of small value as follows

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

Other funds are:

- **Wessex Slaughterhouse Board** – The Council has responsibility of the former constituent authorities to pay pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between the constituent authorities

	Income £000	Expenditure £000	Assets £000
Chipperfield Trust	(21)	0	**(170)**
LC Smith Bequest	(0)	0	**(34)**
Miss Orris Bequest	0	2	**(109)**
Aldridge Bequest	(9)	28	**(197)**
Minor Trust Funds	(1)	0	**(38)**
Trust Funds Total	**(31)**	**30**	**(548)**
Wessex Slaughterhouse Board			**(93)**
Total	**(31)**	**30**	**(641)**

HOUSING REVENUE ACCOUNT

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

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

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

Comprehensive Income and Expenditure Statement

2013/14 £000	Expenditure	Notes	2014/15 £000
16,946	Repairs and Maintenance		17,339
16,661	Supervision and Management		20,880
4,520	Rents, Rates, Taxes and Other Charges		4,338
18,261	Depreciation	7	18,939
(12,956)	(Revaluation) / Impairment of non-current assets	7	(11,433)
46	Debt management costs		45
1,191	Movement in the allowance for bad debts		194
44,669	**Total Expenditure**		**50,302**
	Income		
(67,663)	Dwellings Rent	1	(71,481)
(1,214)	Non-Dwelling Rents		(1,178)
(5,359)	Tenant Charges for Services & Facilities		(5,243)
367	Contributions Towards Expenditure		62
(73,869)	**Total Income**		**(77,840)**
(29,200)	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		(27,538)
373	HRA services' share of Corporate and Democratic Core		375
0			
(28,827)	**Net Expenditure/ (Income) for HRA Services**		**(27,163)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
0	(Gain) or loss on the sale of HRA non-current assets		(3,021)
(134)	Capital Receipts not matched by Disposal of Assets		0
(894)	Investment Property Revaluation Movements	7	420
5,396	Interest payable and similar charges		5,277
(34)	Interest and investment income		(26)
2,085	Pensions interest cost and expected return on pension assets	10	1,790
(121)	Capital grants and contributions receivable		(2,102)
(22,529)	**(Surplus) / Deficit for the Year on HRA Services**		**(24,825)**

HOUSING REVENUE ACCOUNT

Statement of Movement on the HRA Balance

2013/14 £000		2014/15 £000	2014/15 £000	2014/15 £000
(3,289)	Balance on the HRA at the end of the previous year			**(2,278)**
(22,529)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(24,825)		
23,558	Adjustments between accounting basis and funding basis under statute	25,105		
1,029	(Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves.		280	
(18)	Transfer to / (from) reserves		(2)	
1,011	(Increase) / decrease in year on the HRA			278
(2,278)	**Housing Revenue Account Surplus Carried Forward**			**(2,000)**

Note to Statement of Movement on the HRA Balance

2013/14 £000		2014/15 £000	2014/15 £000
	Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA		
134	Capital Receipts not matched by Disposal of Assets	0	
139	Capital grants and contributions applied	2,103	
0	(Gain) or loss on the sale of HRA non-current assets	3,021	
(394)	Amortisation of Item 8 Discount	(13)	
13,850	Impairment and Revaluation of Fixed Assets	11,013	
0	Gain or loss on sale of HRA fixed assets	0	
(4,547)	Net Charges made for retirement benefits in accordance with IAS 19	(4,321)	
9,182			**11,803**
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
2,339	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,628	
5,551	Principal Repayments	5,130	
6,486	Capital Expenditure funded by the HRA	5,544	
14,376			**13,302**
23,558	**Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year**		**25,105**

HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31 March 2015, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 4.80% (31 March 2014 – 5.56%). The total arrears were £2.909M (31 March 2014 - £2.933M). Rents written off during the year amounted to £399,000 (last year £526,000).

The main sources of rent income after allowing for voids of £951,000 (last year £1.07M) are set out in the following table:

2013/14		2014/15
£000		**£000**
27,279	Rent met by Tenants	30,351
40,384	Rent Rebates	41,130
67,663		**71,481**

2. Major Repairs Reserve

Total 2013/14 £000		Land 2014/15 £000	Dwellings 2014/15 £000	Other 2014/15 £000	Total 2014/15 £000
0	Opening Balance	0	0	0	0
(18,261)	Receipts in Year	0	(18,871)	(68)	(18,939)
18,261	Payments in Year	0	18,871	68	18,939
0	**Closing Balance**	**0**	**0**	**0**	**0**

3. Housing Stock

During the year 1.38% (1.39% for 2013/14) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2014/15 was £83.92 a week (£78.53 for 2013/14). The stock at the year-end was made up as follows:

2013/14		2014/15
16,807	Stock at 1st April	16,702
(106)	Less: Sales	(117)
2	Plus: Conversions	11
(1)	Other/Demolitions	(34)
16,702	Stock at 31st March	**16,562**
	Consisting of :	
5,364	Houses	5,252
11,322	Flats	11,294
16	Bungalows	16
16,702		**16,562**

4. Capital Expenditure

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

2013/14	Capital Spending	2014/15
£000		£000
30,587	Housing Stock	30,225
30,587	**Total Capital Expenditure**	**30,225**
	Capital Expenditure Source of Finance	
£000		£000
5,701	Capital Receipts	3,639
0	Grants	1,350
18,261	Transfer from Major Repairs Reserves	18,939
139	Contributions	753
6,486	Direct Revenue Funding	5,544
30,587	**Total Financing**	**30,225**

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have changed to allow local authorities to retain receipts that exceed a predetermined set level. This predetermined level is known as the share cap. Once the share cap has been achieved any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts that fall within the share cap are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2014/15 the Council received £2.27M from right to buy sales that can be utilised on new build affordable housing projects.

2013/14		2014/15
£000		£000
5,588	Opening Balance at 1 April	5,049
	Receipts in Year:-	
	Sale of Assets	
5,814	Council Housing	6,207
809	Land, Buildings & Equipment	1,120
11	Repayment of Advances	47
12,222		12,423
(134)	Allowable deduction arising from Disposal	(151)
12,088		12,272
	Application in Year:-	
(398)	Inter Portfolio Transfer	(446)
(5,701)	Financing of new HRA Capital Expenditure	(3,639)
(940)	Pooled Receipts	(1,060)
5,049	Closing Balance at 31 March	**7,127**

6. Impairment Allowance for Bad Debts

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

2013/14		2014/15
£000		£000
570	MRC Bad Debt Provision	348
1,928	Rents Bad Debt Provision	1,899
2,498		**2,247**

7. Property Plant and Equipment

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

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2014 was £1,507M, 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 2015.

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

Movements in Fixed Assets During 2014/15

	Property, Plant and Equipment (PPE)				Assets Held for Sale	Investment	Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Total PPE			
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2014	**508,506**	**4,167**	**648**	**513,321**	**0**	**8,143**	**521,464**
Additions	30,138	24		**30,162**		63	**30,225**
Disposals	(4,353)			**(4,353)**			**(4,353)**
Reclassifications				**0**			**0**
Revaluations	(6,669)	(91)		**(6,760)**		(420)	**(7,180)**
Impairments				**0**			**0**
At 31 March 2015	**527,622**	**4,100**	**648**	**532,370**	**0**	**7,786**	**540,156**
Depreciation and Impairment							
At 1 April 2014	**(18,193)**		**(511)**	**(18,704)**	**0**	**0**	**(18,704)**
Depreciation charge for year	(18,871)		(68)	**(18,939)**			**(18,939)**
Disposals				**0**			**0**
Reclassifications				**0**			**0**
Revaluations	18,193			**18,193**			**18,193**
Impairments				**0**			**0**
At 31 March 2015	**(18,871)**	**0**	**(579)**	**(19,450)**	**0**	**0**	**(19,450)**
Balance Sheet amount at 31 March 2015	**508,751**	**4,100**	**69**	**512,920**	**0**	**7,786**	**520,706**
Balance Sheet amount at 31 March 2014	**490,313**	**4,167**	**137**	**494,617**	**0**	**8,143**	**502,760**
Nature of Asset Holding							
Owned	508,751	4,100	69	512,920	0	7,786	**520,706**
Finance Lease							**0**
PFI							**0**
	508,751	**4,100**	**69**	**512,920**	**0**	**7,786**	**520,706**

8. Direct Revenue Financing Reserve

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

2013/14 £000		2014/15 £000
	Direct Revenue Financing Reserve	
0	Direct Revenue Financing Balance Brought Forward	0
(6,486)	Contribution From Revenue In Year	(5,544)
6,486	Applied for Capital	5,544
0	**Balance Carried Forward**	**0**

9. Minimum Revenue Provision (MRP)

A voluntary MRP payment of £5.1M was made in 2014/15 (£5.6M – 2013/14).

10. Pensions

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

Local Government Pension Scheme	2013/14 £000	2014/15 £000
Income and Expenditure Account		
Net Cost of Service		
Current service costs	2,365	**2,425**
Past service costs	97	**106**
Financing, Investment Income and Expenditure		
Interest Cost	2,085	**1,790**
Amounts to be Met from HRA		
Movement on pensions reserve	(2,208)	**(1,693)**
Actual Amount Charged Against HRA		
Employer's contributions payable to scheme	**2,339**	**2,628**

11. Item 8 Credit and Debit (General) Determination

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

Item 8 Credit and Debit (General) Determination

2013/14		2014/15
£000		£000
(34)	Interest and Investment Income	(26)
13,850	Impairments and Revaluation of Fixed Assets	11,013
(394)	Amortisation of Item 8 Discount	(13)
13,422		**10,974**
£000's		**£000's**
5,396	Interest payable and similar charges	5,277
18,261	Depreciation	18,939
(13,850)	Impairments and Revaluation of Fixed Assets	(11,013)
5,551	Principal Repayments	5,130
46	Debt management costs	45
15,404		18,378
28,826	**Net Item 8 (Credit)/ Debit**	**29,352**

THE COLLECTION FUND

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

Income and Expenditure for the Year Ended 31 March 2015

2013/14			2014/15	
£000	**Council Tax**	Notes	£000	£000
	Income			
(85,798)	Income due from Council Tax Payers	2	(90,181)	
	Transfers (to)/ from the General Fund			
	- Hardship Relief		(196)	
4	- Local Council Tax Discount		2	
1	- Transitional Relief		0	
(85,793)				**(90,375)**
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax			
1,041	- Southampton City Council			1,782
123	- Hampshire Police Authority			213
52	- Hampshire Fire & Rescue Service			87
(84,577)	**Total Council Tax Income**			**(88,293)**
	Expenditure			
	Precepts			
70,049	- Southampton City Council Precept	4	73,467	
8,390	- Hampshire Police Authority Precept	4	8,800	
3,405	- Hampshire Fire & Rescue Authority Precept	4	3,501	
81,844				**85,768**
	Bad and Doubtful Debts			
1,153	- Write Offs	6	760	
504	- Provisions	6	1,107	
1,657				**1,867**
83,501	**Total Council Tax Expenditure**			**87,635**
(1,076)	**Council Tax - Deficit / (Surplus) for the Year**			**(658)**
(1,536)	Council Tax - Deficit / (Surplus) Brought Forward			(2,612)
(2,612)	**Council Tax Deficit / (Surplus) Carried Forward**	8		**(3,270)**
	Business Rates			
	Income			
(100,877)	Income Collectable from Business Ratepayers	3		**(103,845)**
	Contributions towards Previous Year's (Deficit)/ Surplus NDR			
	- Southampton City Council			(8,647)
	- Central Government - DCLG			(8,823)
	- Hampshire Fire & Rescue Service			(176)
(100,877)	**Total Business Rates Income**			**(121,491)**
	Expenditure			
1,143	- Payment to DCLG - Transitional Arrangements		1,493	
50,545	- Payment to DCLG - Business Rate Retention		46,492	
49,534	- SCC Business Rates Retention		45,562	
1,011	- HFRA Precept		930	
2	- Interest on Overpayments		0	
322	- Costs of Collection	5	318	
102,557				**94,795**
	Bad and Doubtful Debts			
1,192	- Write Offs	6	473	
(216)	- Provisions	6	221	
15,145	- Appeals Provision	7	2,417	
16,121				**3,111**
118,678	**Total Business Rates Expenditure**			**97,906**
17,801	**Business Rates (Surplus) / Deficit For the Year**			**(23,585)**
0	Business Rates - Deficit / (Surplus) Brought Forward			**17,801**
17,801	**Business Rates Deficit / (Surplus) Carried Forward**	8		**(5,784)**
15,189	**Total Collection Fund (Surplus) / Deficit**			**(9,054)**

THE COLLECTION FUND

1. Introduction

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

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

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

Retained business rates scheme, the main aim of which is to give Council's a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NDR tax base.

The scheme allows the Council to retain a proportion of the total NDR received. The Southampton share is 49% with the remainder paid to Central Government (50%) and Hampshire Fire and Rescue Authority (1%).

NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

2. Council Tax Base

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

The Council Tax base for 2014/15 was 58,267 (56,661 in 2013/14). The tax base for 2014/15 was calculated as follows:

Council Tax Base

	Net Chargeable Dwellings	Relevant Proportion	Band D Equivalents
Band A Disabled	57	5/9	32
Band A	17,411	6/9	11,607
Band B	23,771	7/9	18,489
Band C	17,188	8/9	15,278
Band D	7,431	9/9	7,431
Band E	2,512	11/9	3,070
Band F	1,223	13/9	1,766
Band G	354	15/9	590
Band H	2	18/9	4
	69,949		**58,267**

Taking the total Band D equivalents of 58,267 and multiplying this by the standard Council Tax of £1,503.54 gives a total estimated income from taxpayers of £87.6M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2014/15 was 97.9%, giving a net Council Tax Base of 57,044.0. Multiplying this by the standard Council tax of £1,503.54 gives the total precepts on the Collection Fund of £85.8M. (55,471.7 by £1,475.42 - £81.8M 2013/14) which compares to the actual net income of £90.2M (£85.8M – 2013/14).

3. Non-Domestic Rates (NDR)

Business Rates retention scheme was introduced from 1 April 2013 whereby Business Rates collected by Southampton City Council are shared between:

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

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

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

The Council in 2014/15 estimated NDR Income of approximately £93.0M, £46.5M payable to Central Government, £45.6M retained by the Council, and £0.9M payable to Hampshire Fire and Rescue Authority. The Rateable Value on 28 March 2015 was £253.1M and the Business Rate Multiplier for the year 47.1p in the £, giving gross rates before reliefs of £119.2M.

4. Precepts

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

5. Allowance for NDR Collection

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

6. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.9M (£1.7M in 2013/14). At 31 March 2015 the provision totalled £8.2M (SCC share £7.0M) against a liability of £11.2M (SCC share £9.6M) (2013-14 £7.1M (SCC share £6.1M) against a liability of £10M (SCC share £8.6M)).

The contribution to the NDR Impairment Allowance was £0.7M in 2014/15 (£1.0M in 2013/14). At 31 March 2015 the provision totalled £1.5M (SCC share £0.7M) against a liability of £3.7M (SCC share £1.8M) (2013-14 £1.0M (SCC share £0.6M) against a liability of £3.7M (SCC share £1.8M)).

7. NDR Appeals Provision

The contribution to the appeals provision was £2.4M (£15.1M in 2013/14). At 31 March 2015 the provision totalled £17.6M (SCC share £8.6M) (2013/14 £15.1M (SCC share £7.4M)).

8. Collection Fund Balance

The Total Collection Fund surplus carried forward for the year is (£9.1M). A year end surplus on Council Tax of (£3.3M) and (£5.8M) on NDR. (13-14 Deficit carried forward £15.2M – Council Tax surplus (£2.6M) – NDR deficit of £17.8M)

Council Tax

The year end balance on the Council Tax element of the Collection Fund of £3.3M surplus can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £2.8M and is shown as a revenue balance in the Balance Sheet. The remaining £0.5M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

NDR

The year end balance on the NDR element of the Collection Fund of £5.8M surplus can be apportioned to Central Government £2.9M (50%), Hampshire Fire and Rescue Authority £0.1M (1%) and Southampton £2.8M. These amounts are included within the adjustments required to derive NDR Debtors and Creditors on an Agency Basis.

THE COLLECTION FUND

The movement on the Collection Fund adjustment balance between 31 March 2015 and 1 April 2014 was an increase of £12.1M - £0.6M increase due to Council Tax and £11.5M increase relating to NDR - giving a surplus balance, after taking into account the £6.5M deficit brought forward, of £5.6M being carried forward to 2015/16. The £12.1M surplus has been credited to the Comprehensive Income and Expenditure Account, reversed out, in the Adjustments between accounting basis and funding basis under regulations note 10, to the Collection Fund Adjustment Account Unusable Reserves Note 22 d).

GLOSSARY

1. Accruals

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

2. Budget

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

3. Capital Asset Charges

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

4. Capital Adjustment Account (CAA)

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

5. Capital Expenditure

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

6. Capital Receipts

The proceeds from the sale of capital assets.

7. Community Assets

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

8. Consistency

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

9. Contingency

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

10. Council Tax

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

11. Creditor

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

12. Debtor

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

13. Depreciation

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

14. Effective Interest Rate (EIR)

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

15. Fair Value

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

16. Financial Assets

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

17. Finance Lease

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

18. Financial Instrument

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

19. Financial Liability

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

20. Financial Reporting Standard (FRS)

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

21. General Fund

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

22. Government Grants

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

23. Heritage Assets

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

24. Housing Revenue Account

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

25. Impairment

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

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

27. International Financial Reporting Standards (IFRS's)

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

28. Long Term Investments

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

29. Long-Term Contracts

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

30. Materiality

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

31. Minimum Revenue Provision (MRP)

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

32. Money Market Funds

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

33. Non Domestic Rates Retention

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

34. Net Book Value

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

35. Net Expenditure

Total expenditure for a service less directly related income.

36. Net Realisable Value

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

37. Non-Operational Assets

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

38. Operating Leases

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

39. Operational Assets

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

40. Post Balance Sheet Events

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

41. Private Finance Initiative (PFI)

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

42. Property, Plant and Equipment

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

43. Public Works Loans Board (PWLB)

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

44. Revaluation Reserve

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

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

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

46. Revenue Expenditure / Income

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

47. Statement of Standard Accounting Practice (SSAP)

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

48. Stocks

Comprise the following categories:

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

49. Supported Borrowing

Borrowing that is supported by Government financial assistance.

50. Unsupported Borrowing

Borrowing that is not supported by Government financial assistance.

51. Useful Life

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

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

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

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the code is on our website at:
http://www.southampton.gov.uk/policies/Code%20of%20Corporate%20Governance.pdf or can be obtained from the:

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

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

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. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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

The governance framework has been in place at the council for the year ended 31st March 2015 and up to the date of approval of the statement of accounts.

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the council's governance arrangements include arrangements for:

a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

Service delivery is guided by a framework of strategic plans and policies which are developed and agreed at three different levels:

- Sub-regional level, which cover more than one local authority;
- City level by 'Southampton Connect' and with our partners; and
- Council level for services which we deliver or commission.

The sub-regional level is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region and the Solent LEP is a locally-owned partnership between businesses and local authorities and seeks to play a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

Southampton Connect is the strategic partnership in the city which seeks to promote the city and to address the key challenges facing Southampton. This collaborative arrangement brings together the private, voluntary, public and community sectors to work together to tackle the key city challenges facing Southampton and improve outcomes for all those who live, work and visit the city.

Key strategic partners have come together (as part of Southampton Connect) to agree a 10 year vision – 'city of opportunity where everyone thrives' with the goal of achieving prosperity for all.

The new Southampton City Strategy for 2015-2025 builds upon progress made by the previous priority projects and has been developed through focusing on the challenges facing Southampton, regional aspirations and feedback from residents via the City Survey (conducted in early 2014). The priorities identified within the Southampton City Strategy are:

Economic growth with responsibility

- Skills and employment
- Healthier and safer communities.

The City Strategy also identifies the following cross-cutting themes that require the collective action of Southampton Connect partners to progress over and above the work of the strategic partnerships:

- Fostering city pride and community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

The council approved a new Southampton City Council Strategy 2014-17 ("Council Strategy") which is a key strategic document, setting out what the council will do, how the council will work and how it will contribute to the Southampton City Strategy (2015 – 2025). It sets out the council's priorities for the next three years and will influence all other strategies and policies developed during this period, as well as spending decisions; directorates and services will also use it to plan service delivery. The key priorities identified within the Council Strategy are aligned with the Southampton City Strategy.

b) Reviewing the authority's vision and its implications for the authority's governance arrangements

The Council Strategy 2014-17 was approved by Council in July 2014 and replaces the former 2013-16 Council Plan. The Council Strategy has been refreshed in light of feedback from residents (through a pre-budget consultation survey and the City Survey conducted early 2014) and to reflect the changing local and national context.

The Council Strategy defines the council's priorities and outcomes however it is recognised that with reducing funding and demand management challenges, the council needs to establish realistic performance outcomes for these priorities. The Cabinet, the Council's Management Team and Heads of Service have developed performance outcomes for the council's priorities as part of the new operating model design.

The council has adopted a Code of Corporate Governance ("CCG") which identifies, in one document, how the council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Head of Legal and Democratic Services and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee.

c) Translating the vision into objectives for the authority and its partnerships

The Council Strategy sets the direction of travel and priorities for the council and will influence all other strategies and policies developed during this period, as well as spending decisions. It sets out how the council will work, both in terms of internal processes and procedures and interactions and relationships with partners in health, private and voluntary sectors, in respect of delivering services effectively. The Council Strategy identifies the following key priorities:

- Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Good quality and affordable housing
- Services for all
- City pride
- A sustainable Council

The Cabinet provided clear guidance to ensure that the views of residents were reflected. Each priority has associated outcomes or 'success measures'. The council actively monitors and publishes performance against the key indicators in the Council Strategy on a quarterly basis.

d) Measuring the quality of services for users, ensure they are delivered in accordance with the authority's objectives and to ensure they represent the best use of resources and value for money

The Council Strategy identifies the key priorities, expected outcomes and success measures. The targets and progress are monitored and reported to both the Council's Management Team and Cabinet, and are published quarterly on the council's website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose.

The council's 'Contract Procedure Rules', which form part of the council's Constitution, govern how the council buys the supplies, services and works that it needs.

e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements

The council has a Constitution that sets out how it operates, how decisions are made (including an Officer Scheme of Delegation) and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the council to choose. The Constitution, which is divided into 15 Articles and sets out the detailed rules governing the council's business, is published on the on the council's website at: http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx

f) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behaviour and standards to be adhered to. In addition, a 'Code of Conduct and Disciplinary Rules' are in place for employees. The Code of Conduct sets out the expected standards of behaviour for all employees and the Disciplinary Rules set out examples of behaviour which are considered to be a breach of the Code of Conduct or a breach of the employee's contract of employment.

g) Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Head of Legal and Democratic Services conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

h) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

The council has in place a Risk Management Policy and Strategy which is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. The policy and strategy is presented to the Governance Committee for review and approval.

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment. In addition, the Risk Management Policy and Strategy summarises the principal roles and responsibilities recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

i) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

The council is committed to safeguarding public funds and has in place an anti-fraud and anti-corruption policy statement and strategy. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity. The strategy applies equally to all organisations with which the Council has joint working relations.

The council also has in place an Anti-Money Laundering policy and a Bribery Policy which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. These policies and strategies are subject to periodic review.

j) Ensuring effective management of change and transformation

The council's has in place a Transformation Programme which is led by a Transformation Implementation Director who, in turn, reports to the council's Transformation and Improvement Board which is chaired by the Cabinet Member for Transformation and supported by the Council's Management Team.

In July 2014 the Council approved a range of actions associated with the next phase of its Transformation Programme. This recognised that, in order to become a sustainable council that is more customer-focused, commercially minded and able to deliver the required budget savings, a systematic redesign of how services are delivered and managed was necessary. The outcome of this exercise, undertaken with external partners, was the development of a New Operating Model which was subsequently approved by Cabinet and Full Council in February 2015.

The new operating model for the Council is to be fully implemented by 2017 and is aligned with and focused on delivering the outcomes and priorities of Council Strategy 2014-17. The new operating model is intended to create a sustainable council that is:

- **more self-reliant** – over time becoming less dependent on central government funding and increasing income generation.
- **focused on outcome-based services** - regularly commissioning the services needed based on outcomes for residents, and making evidence based decisions on those services that need to be stopped or changed.
- **quicker to respond** – more able to adapt to changing circumstances and residents' needs including improving the digital offer to our customers.
- **equipped to work in new ways** – implement new ways of working for council staff, seeking new ways of reducing procurement spend and better use of assets.
- **providing a mixed economy of service providers** – taking different approaches to delivering services, taking ideas from all sectors as well as the public sector.

k) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2010)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

l) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

m) Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Head of Legal and Democratic Services is designated as the Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to the full Council and/or to the Cabinet.

n) Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet. The Chief Executive together with the Council Management Team is responsible for the leadership and direction of the council including the co-ordination and commissioning of council-wide activity and programme management.

o) Undertaking the core functions of an audit committee, as identified in CIPFA's 'Audit Committee – Practical Guidance for Local Authorities'

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance statement process.

p) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

In addition, the council has Financial Procedure Rules which provide the framework for managing the council's financial affairs, and Contract Procedure Rules which govern the method by which the council spends money on supplies, services and works. Both documents form part of the council's Constitution.

q) Whistle blowing and receiving and investigating complaints from the public

The council has in place 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

There is a Corporate Complaints policy and procedure in place which is published on the council's website and sets out how a complaint will be dealt with. In accordance with legislation there are separate procedures in place in respect of Adults' and Children's Social Care. Complaints about Members are dealt with under the Members' Code of Conduct.

r) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

A Member Development Strategy is in place which sets out how Member Learning and Development will be identified, delivered and managed. The Strategy, which was approved the Governance Committee in April 2014, refers to the following key values:

- Development will be available to all Members;
- Development will be based on the identified and agreed needs of the individual Member;
- All Members will contribute to identifying and agreeing their development needs
- Development will be delivered through a variety of methods and times to ensure equality of access; and
- An acknowledgement that Members may have transferable skills that can be used to help them perform or develop their Council role.

Senior Officer development needs form part of the annual performance appraisal process with a requirement that learning and development priorities are linked to key objectives and service plan priorities. The training needs of senior officers forms part of the "Annual Statement of Training Requirement" which reflects training needs across council. This is separated into three sections as follows:

- **Corporate / whole council**– training that is generically needed to meet wider council requirements; policy / procedure / council standards. It will often include SCC management development training, customer service and health and safety training needs.
- **Core training**– relates to the core / key knowledge and skills training needed by staff to competently and confidently deliver the specific council business e.g. residential care training / waste removal training / social work training / housing training etc.
- **Specialist**– any specialist part of the "core business". For example a smaller number of people who undertake a specialist function within the division e.g. adoption and fostering.

s) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

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

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

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

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the 2014-15 Pre Budget consultation process helped shape the final 2015-16 budget report. Information was made available in an easy-to- understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The council has established a 'People's Panel', with the aim of recruiting over 1,000 volunteers to join it. This Panel comprises a group of residents who are interested in taking part in consultations and other opportunities to express their views on council services, health services and living in the city, the results of which will be used to inform future decisions and services. The council will also track residents' views over time to see how changes in the city affect their opinions and experience of the city. Members of the People's Panel may also be asked to take part in various forms of activity including surveys, quick polls, interviews and workshops.

A 'Southampton Youth Forum' has also been established. This is a mechanism for ensuring that the views of young people in the city are heard and acted upon by the council. It involves a termly meeting to discuss topics and share ideas, alongside the termly meeting online surveys will be used to gather feedback form young people.

This is in addition to the Southampton City Residents Survey which took place in 2014 and will be repeated every other year for the next five years. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and further education bodies, is an important step in building a better understanding of our residents.

t) Enhancing the accountability for service delivery and effectiveness of other public service providers

Performance in respect of the key priorities and success measures identified in the 'Council Strategy' is monitored by the Council Management Team and reported to Cabinet. Quarterly performance reports, which include success measures, key indicators and a direction of travel, are published on the council's website.

A number of the council's key services are delivered in partnership with external service providers. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service providers. All such arrangements include a suite of key performance indicators and are based upon a culture of continuous improvement, recognising the need to achieve a balance between the council's ongoing financial challenges and long term strategic aims.

u) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

A Partnership Code forms part of the council's Constitution and identifies the key considerations when developing a partnership including 'is there clarity of purpose and is it compelling' and 'how will decisions be made and acted upon'.

An Internal Audit review on 'Partnership Arrangements' was undertaken in 2014 which focussed on the adequacy and coverage of partnership guidance to address key risk exposure to the organisation.

The overall opinion was that 'adequate assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives'. The report did however include a number of observations mainly around updating and enhancing the 'Partnership Code' to emphasise resourcing, governance, accountability, performance and alignment to strategic aims when entering into partnership arrangements

Following the Internal Audit Review, and discussion with the Chairs of the main partnerships:

- The Chief Executive has established a Chairs' Group, comprising the Chairs of the key strategic partnerships (Southampton Connect, Health and Wellbeing Board, Safe City Partnership, Employment, Skills and Learning Partnership). The Chairs of the Local Safeguarding Children's Board and Southampton Safeguarding Adults Board have also been invited to join this group. The group will coordinate the programme of work for the year, ensuring a more joined up and consistent approach.

- Support for the key partnerships has been brought together into the council's new Strategy Unit, to ensure coordinated and effective support is provided to all Boards.
- There has been a review of the Health and Wellbeing Board in order to ensure that the Board is future proof and fit for purpose so that it can make strategic health decisions for the city in response to the needs of the local population now and in the future.
- Plans are in place to review the partnership code, raise awareness with Elected Members and develop a handbook for Board members by December 2015.
- An annual review of partnership performance and value for money will also be undertaken by the Strategy Unit and reported to the Chairs Group, CMT and Cabinet in the autumn. The intention is that this will be an internal, council focussed document, which will provide an assessment as to whether requirements are being met, and whether the council is obtaining value from the money and effort it allocates to the partnerships.

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Assistant Chief Executive, Monitoring Officer and Chief Internal Auditor).

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Director and/or Head of Service being required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual 'Self Assessment Statement' by Directors which covers the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and Strategy, specifically the Strategic and Directorate Risk Registers;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

ANNUAL GOVERNANCE STATEMENT

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Governance Issue	Planned Action
1.	The published Corporate Procurement Strategy refers to the period 2009-12	The slippage is mainly due to the implementation of the 2015 Public Contract Regulations in February 2015 and the time it has taken to understand the new regulations, whilst also briefing the organisation what it needs to do to comply with the new regulations. As a result CPR's need to be completely revised to take account of both the new regulations and the fact that Capita Procurement now manage all of the councils' procurements. In addition, we are reviewing contract management and procurement as part of our operating model work with PwC.
	Responsible Officer: Chief Financial Officer	**Target for completion:** December 15
2.	Business continuity plans need to be reviewed and updated to reflect the high level of organisational change that has taken place and is ongoing.	A new Business Continuity Policy and associated templates have been drafted and are to be presented to the Council's Management Team in June 15 for approval. The new Business Continuity Plan template will then rolled out across the service areas (Dec 15).
	Responsible Officer: Director of Place	**Target for completion:** December 15
3.	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.	(i) Review and implement appropriate arrangements to provide adequate organisational resources in each Directorate to enable compliance and oversight of information governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented. (ii) To compile and submit the annual Information Governance NHS Toolkit to ensure data sharing can continue.
	Responsible Officer (i): Head of Legal & Democratic Services **Still being compiled –Target** September 2015 **Responsible Officer (ii)**: Director of People	**COMPLETED:** July 15
4.	The level of employee understanding and awareness in respect of their responsibilities for the management of information is potentially inconsistent. Not all staff have completed the mandatory Information Governance e-leaning (including Data Protection, Freedom Of Information Act and Protecting Information). There are concerns regarding the accuracy and robustness of the training database that captures training which is being urgently investigated.	Completion of the mandatory training needs to be rigorously enforced with a sanction in the event of continued non-compliance. A revised database package consolidating the components is being investigated as is a different and more appropriate style of roll out to those colleagues who do not ordinarily access IT.
	Responsible Officer: Head of Legal & Democratic Services	**Target for completion:** September 15

5.	The skill and competencies of employees will need to be aligned with, and reflect, the organisational needs going forward.	Development and delivery of a standard Corporate Induction Programme for new employees. Development of a management template identifying the standard required competencies and skills required. To incorporate ongoing learning requirements in respect of awareness of key policies and processes. Assessment of chief officer graded employees and leadership development plans put in place
	Responsible Officer: Head of Strategic HR	**Target for completion:** December 15
6.	Some of the documents, policies and strategies referred to in the published Code of Corporate Governance have since been updated.	Review and update document to ensure that it refers to current documents, policies and strategies
	Responsible Officer: Head of Legal & Democratic Services	**COMPLETED** – but ongoing

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed

Dawn Baxendale
(Chief Executive)
on behalf of Southampton City Council

Councillor Simon Letts
(Leader of the Council)

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

Opinion on the Authority's financial statements

We have audited the financial statements of Southampton City Council for the year ended 31 March 2015 under the Audit Commission Act 1998 (as transitionally saved). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and related notes 1 to 40, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance and related notes 1 to 11, and the Collection Fund and the related notes 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Southampton City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Financial Statements set out on page 16, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2014/15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2014/15 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under its Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, *Southampton City Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of Southampton City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
28 September 2015