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FINANCIAL FOREWORD

1. Financial Statements

In preparing its final accounts the Council is required, by law, to produce and publish a number of accounting statements. Supplementary notes are attached to each statement where further explanation is required. The statements are:

- *Consolidated Revenue Account* p14-20
This statement brings together the income and expenditure of all the services provided by the Council, including the HRA but excluding the Collection Fund.
- *Housing Revenue Account (HRA)* p21-25
This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats.
- *Council Tax Collection Fund Revenue Account* p26-28
The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.
- *Consolidated Balance Sheet* p29-41
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2005.
- *Statement of Total Movement of Reserves* p42-44
The statement brings together all the gains, losses and movements in the year of revenue and capital reserves.
- *Cash Flow Statement* p45-47
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.
- *Trust and Other Funds* p48-49
This statement shows receipts and payments of funds for which the Council acts as trustee.

2. Financial Summary

The Statement of Accounts brings together all the financial activities of the Council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from sources such as Council Tax, Government Grants and Housing Rents. The statements have been produced in accordance with the Best Value Accounting Code of Practice, which came into effect from 1st April 2000.

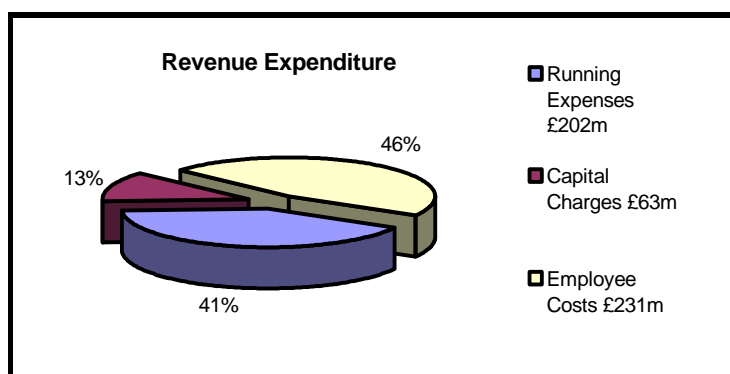
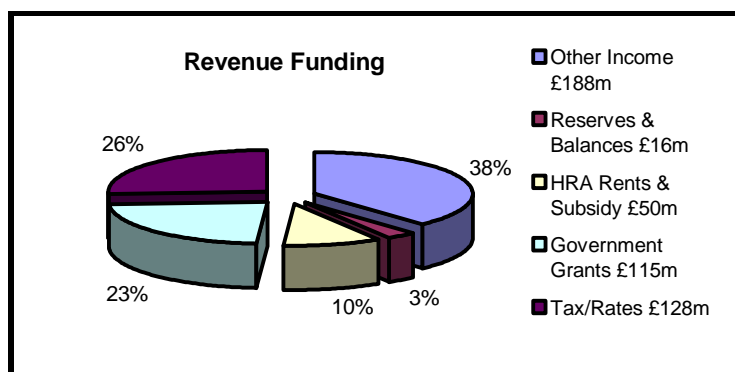
The Council undertakes a number of major one-off capital projects that create an asset that has a life beyond one year. Expenditure on capital projects is financed mainly from a mix of loans, capital receipts, contributions and revenue. In addition the Council has three new schools built through Private Finance Initiatives (PFI) schemes, (see [page 6](#), note 12 for further details).

a) Revenue Expenditure and Income

The net revenue cost of services in the year totalled £289.1 Million, compared to £279.7 Million in 2003/04. The total amount to be met from Government Grants and Local Taxation increased from £230.6 Million in 2003/04 to £241.9 Million in 2004/05. The charts on [page 2](#) show the main sources of Revenue Income and Expenditure:

The balance of reserves was £13.2 Million at 31 March 2005.

FINANCIAL FOREWORD



Full details of the Consolidated Revenue Account can be found on [page 14](#).

b) Expenditure on Capital Projects

In 2004/05 the Council spent £55 Million on capital projects. Some of the major schemes were:

- Refurbishment of Council Dwellings
- Expenditure to meet Decent Homes standard
- Improvements to Schools
- New Sports Halls and facilities
- Bridge Maintenance
- Sinclair Primary School Amalgamation

Total capital expenditure was £3.9 Million less than the approved budget, principally due to slippage on expenditure, which will now be incurred in 2005/06.

The Council used borrowing supported by the Government of £12.2 Million to finance capital expenditure in the year. The other principal sources of financing were Capital Grants (£15.4 Million), Major Repairs Allowance (£11.8 Million) and Capital Receipts (£11.0 Million).

A more detailed analysis of capital spending plus sources of finance is shown on [pages 30-31](#).

The Council continues to make full use of advantageous lending terms that are offered by the Public Works Loan Board (PWLB) to finance the proportion of its capital programme that is funded through borrowing. In 2004/05 £6 Million was borrowed. A more detailed analysis of the Council's long-term borrowing plus sources is shown on [page 36](#).

3) Issues

The main issue affecting 2004/05 and the preparation of the accounts was the introduction of the 2003 Local Government Act, the main points being:

- Capital Accounting; amended definition of operational and non-operational and the introduction of intangible assets.
- The move to bring accruals accounting in for Capital Expenditure.
- Inclusion of the analysis of Net Assets Employed.
- Introduction of Group Accounts.
- Abolishment of Housing set aside and the introduction of 'Pooled Capital Receipts'.
- Full compliance with the requirements of Statement of Internal Control.
- FRS17, the 2003/04 accounts were prepared under the 2003 SoRP which required a 3.5% real discount rate to be used. The 2004 SoRP requires the AA corporate bond rate to be used and is effective from 1 April 2004. This has led to a significant increase in liabilities and the current service costs, (see [page 7](#) for further details).
- Introduction of the Prudential Code and the calculation of the Minimum Revenue Provision.

STATEMENT OF ACCOUNTING PRINCIPLES

1. General

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting.

2. Accrual Accounting

The principle whereby expenditure and income is matched to the year it relates is applied wherever practicably possible throughout the accounts. At the year-end accruals are established for capital and revenue to more accurately reflect the true cost of the services in the year.

From 2004/05 the financing of capital expenditure is now on an accruals basis, rather than a cash basis.

3. Reserves and Provisions

Reserves are established by amounts set aside from surpluses and are used as a means of financing future expenditure. Expenditure should not be charged directly to a reserve.

Provisions are established in accordance with the CIPFA Code of Practice to meet any likely, or certain, loss that will arise. The provisions are created by charges to the respective service account with the actual expenditure, when it arises, being charged directly to the provision.

The Reserves and Provisions are explained in more detail in the Notes to the Consolidated Balance Sheet on [pages 30 to 41](#).

4. Fixed Assets

The Code of Practice requires that services should reflect the cost of using assets in their running costs. This is achieved by valuing all the assets that are owned by the Council and establishing a yearly rental. For 2004/05, this was in accordance with LAAP 57, which set a rate of 3.5% for those assets carried at current value and 4.8% for those at Historic cost.

The basis of valuation is dependent on the type of asset. The categories are:

a) Intangible Assets

Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entry through custody or legal right”. The types of assets normally included within this definition are purchased software. Intangible assets are amortized to service accounts (from the year following acquisition) over their economic lives. These assets are held in the balance sheet at actual costs incurred.

b) Operational

Land, property and other assets used for service provision are called ‘operational assets’. Land and property are included in the balance sheet at the Open Market Value for their present use when there is sufficient evidence to support the value, or at Discounted Replacement Cost. The exception to this rule is Council Houses, which are valued on the “Beacon” method. This involves establishing a value over a range of types and ages of property, which is then applied to the housing stock. An allowance is made for discount on the sale of stock.

Vehicle, plant and equipment is held in the balance sheet at actual costs incurred and are amortized to service accounts (from the year following acquisition) over their economic lives.

STATEMENT OF ACCOUNTING PRINCIPLES

c) Non-Operational

These are assets owned by the Council but not used in the direct delivery of services and are occupied by third parties to provide services on the Council's behalf. They are valued on Open Market Value. For investment properties the rental is based on an assumed commercial value.

d) Infrastructure and Community Assets

These are included in the balance sheet at historical cost net of depreciation. As recommended by CIPFA the Council's policy is that assets with a value of less than £5,000 do not attract an Asset Rental.

e) Assets under Construction

Assets are held at the value of capital expenditure to date, until such time as the asset is deemed to require certification by the Valuer. Notional Interest is not charged to services on these assets.

f) Surplus Assets, held for Disposal

These are valued on the basis of market transactions.

5. Deferred Charges and Government Grants

A deferred charge, although treated as capital for financing, does not generate an asset that has a value to the Council. As a result the expenditure, along with any Government Grant received, is now generally charged to service accounts in the year in which the expenditure is incurred.

6. Sale of Fixed Assets

Capital receipts arise when the Council disposes of assets, if at the time of the disposal, expenditure on the assets would have been expenditure for capital purposes.

Capital receipts in respect of the Housing Revenue Account are divided, as required by law, between those subject to pooling, which must be paid to Central Government and a usable balance, which is available to the Council to finance future capital expenditure. Deferred capital receipts from the sales of council houses reflect the amount of mortgage principal outstanding on 31st March. The summarised movements of capital receipts are on [page 39](#).

7. Loans and Investment

The Council's borrowing is split between Long Term for loans of one year and longer and Short Term for loans of less than one year. The crucial contrast with a private organisation is that an authority's debt, whether short-term or long-term, is secured, not on its fixed assets, but on its revenues. A lender to a local authority enjoys the security of knowing that in the last resort, the authority would be obliged to raise revenues in order to repay outstanding debts. Investments arise on a short term basis throughout the year as a result of movements in cash flow. These are shown in the Accounts at cost or Market Value.

8. Debtors and Creditors

Both revenue and capital accounts are prepared on an income and expenditure basis. Provision is therefore made for goods and services supplied to, or by, the Council, but not paid for at 31st March.

There are some exceptions to this rule mainly relating to some periodic payments, but as the number of payments in each year is constant they do not distort the accounts.

STATEMENT OF ACCOUNTING PRINCIPLES

9. Stocks and Work in Progress

Where possible stock and work in progress are valued in accordance with SSAP 9, at the lower of cost or net realisable value. There are two notable exceptions to this rule in the accounts:

- For 2004/05 the Council's Central Stores stock has been valued on an "Average Cost" basis as recommended in SSAP 9.
- Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it is cancelled out when the accounts are consolidated.

10. Overheads

The current accounting policy for overheads is that all services should bear an equitable proportion of the overheads of the Council. Support Service costs are recharged to services on a variety of bases e.g. Agreed Annual charge, Time Allocation, Unit Rates. The split between Purchaser (Portfolios) and Provider (Staff Divisions) means that most service areas rely on internal recharging to correctly attribute costs. Most services have agreed annual charges.

11. Regeneration Budgets

Southampton City Council is the Accountable body for the regeneration programmes for the South East England Development Agency (SEEDA) and the Government Office for the South East (GOSE).

The Council is responsible for the successful delivery of the Single Regeneration Budget (SRB) and New Deal for Communities programmes that have been awarded to the City. A Partnership Board of local residents and agencies manages each programme.

The total grant value of these combined programmes amounts to approximately £70 Million, (excluding contributions from Partner Organisations), and is helping to significantly improve the quality-of-life for the residents in the target areas of Outer Shirley and Thornhill.

Community Regeneration's main aims are to build capacity and to deliver benefits to local communities through lifelong learning, access to employment, better community safety, better health and housing improvements.

12. Private Finance Initiative in Education

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 Private Finance Initiative (PFI) whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Limited, designed, built, financed and are now operating the schools.

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 City Council. The City Council started to pay an annual fee to the consortium following the completion of the first school during the 2004/05 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 3 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 centrally by the City Council).

STATEMENT OF ACCOUNTING PRINCIPLES

13. Council Companies/Group Accounts

Under Local Government and Housing Act 1989 part V, the Council is required to consolidate into its accounts any Company in which it has “arms length” control. There are no trading companies in which the Council has an interest, but an interest is held in Southampton City Leisure Limited, which has been dormant since 31st March 2001.

The 2004 SORP established criteria whereby Councils now need to identify all bodies that the authority has ‘an interest’ and has an access to benefits or exposure to the risk of a potential loss. Full disclosure is required for 2005/06 with the possibility of Group accounts. Work is under way to establish if there are any existing bodies and to identify new ones established during 2005/06.

14. Trust Funds

As required by the Accounting Code of Practice, all trust funds, where the Council is the sole trustee, have been consolidated into the accounts of the Council. Details of the Trust Funds can be found on [page 48-49](#).

15. Pensions

The authority makes payment into a fund managed by Hampshire County Council. The Funds actuary based on triennial valuations determines the contribution amount. In addition Southampton City Council is responsible for all pension payments relating to added years benefits and gratuity pensions it has awarded.

The requirements of FRS17 were fully incorporated into the 2003/04 Accounts. This reflects the commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. The 2003/04 accounts were prepared under the 2003 SoRP which required a 3.5% real discount rate to be used. The 2004 SoRP requires the AA corporate bond rate to be used and is effective from 1 April 2004. This has led to a significant increase in liabilities and the current service costs:

- The overall amount to be met from government grants and local taxation has remained unchanged, but the costs for individual services are £0.67M higher (£0.92M in 2003/04) after the replacement of employer’s contribution by current service costs, and Net Operating Expenditure is £8.01M higher (£3.37M higher in 2003/04) than it would otherwise have been.
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £131.7M in 2003/04 and by £194.3M in 2004/05.

For further information see [pages 18-19 & 39-40](#).

16. Leases

Operating leases are accounted for net of benefits received or receivable. This is in accordance with the 1998 Accounting Code of Practice.

17. Redemption of debt

The minimum revenue provision for the redemption of debt is in accordance with statute.

18. Interest Charges

Interest on loans is charged to the asset management revenue account based on the amount due and payable in the financial year.

STATEMENT OF ACCOUNTING PRINCIPLES

19. Depreciation

Council Dwellings – The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from central government. This amount has been calculated as that required to maintain the housing stock in its current condition and central government allows this to be used as proxy for depreciation.

Other Land and Buildings - All fixed assets identified as having a useful economic life of less than 50 years, are depreciated on a straight-line basis over the remaining years.

Vehicles, Plant & Equipment, and Intangible assets - depreciation is applied on a straight-line basis over the useful life of the asset.

Infrastructure – assets are depreciated over 40 years on a straight -line basis.

Community Assets and Investment Properties – these assets are not depreciated.

20. Impairment

Where a loss in value occurs as a result of physical damage, obsolescence or other impairment and the value falls below the balance sheet value, an appropriate adjustment is made.

STATEMENT OF ACCOUNTING RESPONSIBILITY

1. 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 Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2005.

In preparing this Statement of Accounts the Chief Financial Officer is responsible for:

- Selecting suitable accounting policies and then applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Complying with the Code of Practice (any significant non-compliance being fully disclosed).
- Keeping proper accounting records, which are up to date.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer should sign and date the Statement of Accounts, stating that it presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31st March 2005.

3. Certificate

I hereby certify that the Statement of Accounts is a true and correct record of the financial transactions of Southampton City Council for the year 2004/05.

Signed

Date 13th July 2005

K. Ward

Acting Chief Financial Officer

STATEMENT OF INTERNAL CONTROL

Southampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded through an effective system of internal control and proper accounting procedures.

In discharging this overall responsibility, Members and senior officers are responsible for ensuring that there are effective and proper arrangements in place in respect of the internal control environment that include arrangements for the management of risk. The "Statement on Internal Control" (SIC) is intended to provide a continuous review of the effectiveness of an organisation's overall internal control environment and this is reflected in the development of the Code of Corporate Governance which has been developed throughout 2004/05 and will bring together the sources from which the assurances may be taken and, in future, will be evidence to support the SIC. This comprehensive document details how the principles of corporate governance should be reflected in respect of the following:-

- Standards of Conduct
- Service Delivery Arrangements
- Structures and Processes
- Community Focus
- Risk Management and Internal Control

The key components of a robust SIC were however in place based on a framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability. The system includes:-

- comprehensive business planning and risk management systems;
- comprehensive budgeting and reporting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- a control self assessment process for the fundamental financial systems;
- setting targets to measure performance, including financial performance;
- the preparation of monthly reports which indicates performance against forecasts;
- clearly defined capital expenditure guidelines.

The key components of the City Council's overall internal control environment are as follows:-

Constitution

Southampton City Council's has a Constitution that sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is divided into 15 Articles that set out the basic rules governing the Council's business. The full document is published on the Council's internet site and can be found using the following link:-

<http://www.southampton.gov.uk/council/cityplans/constitution/>

City Performance Plan

The City Performance Plan provides information on the quality and level of services provided by the Council and includes details of a range of key initiatives and projects that the council will be implementing to improve various aspects of its services. The plan, which represents a high level statement of council policy and priorities, provides a source of information about the council's performance and aspirations and provides the baseline and targets against which performance will be monitored during the year.

STATEMENT OF INTERNAL CONTROL

The full document is published on the Council's internet site and can be found using the following link:-

<http://www.southampton.gov.uk/council/cityplans/cityperformanceplan/>

Medium Term Plan 2003 – 2007

Southampton City Council has published its Medium Term Plan (MTP) covering the period 2003 – 2007. The MTP acknowledges that improvement is more likely to be realised by planning the services sets out the priorities that will take the City forward in a measured, progressive and sustainable way between 2003 and 2007.

The full document is published on the Council's internet site and can be found using the following link:-

<http://www.southampton.gov.uk/council/cityplans/mediumtermplan/default.asp>

Community Strategy

The Community Strategy is a long-term 2020 plan designed to improve quality of life improvement for all those who live, work or visit the city. It aims to reflect the main priorities of Southampton's citizens and develop a vision that is shared by the city's public, private and community & voluntary sectors. The Community Strategy concentrates on the needs of citizens and neighbourhoods and focuses on the major challenges and how they can be tackled through shared ownership and joint action.

The full document is published on the Council's internet site and can be found using the following link:-

http://www.southampton-partnership.com/commstrat/Community_Strategy.pdf

Statement of Accounts 2003/2004

The Statement of Accounts bring together all of the financial activities of the council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from sources such as Council Tax, Government Grants and Housing Rents.

The full document is published on the Council's internet site and can be found using the following link:-

<http://www.southampton.gov.uk/council/finances/>

Code of Conduct

A code of conduct for Members and officers has been published on the Council's intranet site.

Anti Fraud and Corruption Strategy and Policy

This policy represents a commitment by the Council to protect the public purse. The purpose of this Strategy is to set out for Members and employees of Southampton City Council the main principles for countering fraud and corruption. Further information is published on the Council's intranet site.

STATEMENT OF INTERNAL CONTROL

Whistleblowing Policy

This policy reflects the legal framework and the legal obligations placed upon the Council and enables staff to raise concerns about any malpractice at an early stage. Further information is published on the Council's intranet site.

Internal Audit

The Council operates an Internal Audit function whose role is to provide independent review, appraisal and reporting on systems of control throughout the Council and the extent of compliance with procedures, policies, regulations and legislation providing assurance to the Chief Financial Officer, Members and management that their agreed policies, procedures and controls are being carried out and the arrangements are adequate and operating effectively. A risk based annual audit plan is produced and reviewed annually. The Risk and Audit Manager reports annually to Standards & Governance Committee, but has the authority to independently report at any time to the Chief Executive, Chief Financial Officer, Officers and Members.

The adequacy and effectiveness of the system of internal financial control is informed by:-

- the work of Members/Officers within the Council;
- the work of the internal auditors as described above;
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual audit letter.

The Internal Audit Section is subject to regular inspection by the Council's external auditors who place reliance on the work carried out by the section.

Risk Management

A standardised framework for identifying, prioritising and managing risks is in place. Risk Management is an integral part of the business planning process and each Directorate is required to produce a 'Risk Register'. The Chief Officers Management Team owns and is responsible for developing and managing the Strategic Risk Register. A more robust approach has recently been developed to identify, analyse and prioritise those risks that may affect the ability of Southampton City Council to achieve its corporate objectives. In addition, each directorate is required to produce a 'risk register' as part of the corporate business planning process.

A Corporate Risk Management Steering Group is in place with responsibility for co-ordinating risk management activities throughout the Council and facilitating the identification, evaluation and effective management of all key business risks.

The Risk and Audit Manager reports annually to Standards & Governance Committee highlighting progress in respect of the Council's risk management arrangements and providing a copy of the Corporate Risk Register.

Significant Internal Control issues

Toward the end of 2004/05 the Audit Commission undertook a review of the Council's risk management arrangements. The Audit Commission had previously commented that the Council's risk management arrangements were not fully embedded. The aim of the short review was to take stock of how far development had progressed and to comment on what further steps may be required to ensure that risk management arrangements are comprehensive and

STATEMENT OF INTERNAL CONTROL

embedded in the council's corporate governance and performance management frameworks. The final report is awaited however it will form part of an action plan.

A review of the Internal Audit service has been undertaken by the Audit Commission against the standards set down in the CIPFA Code of Internal Audit Practice 2003. The final report is awaited which will form part of an action plan.

Following an external audit report into the Urban Bus Challenge procurement issues the matter was considered by the Environment and Transport Scrutiny Panel on 19th January 2005 and the Action Plan produced by the external auditors adopted. This concerned the circumstances that led to the Council losing a sum of money in relation to the Urban Bus Challenge Bridge Link Project.

Following an internal audit report into the overspend (compared to the original capital estimate), for the extension of Brownhill House, the matter was considered by the Resources Scrutiny Panel on 30th June 2005.

Signed _____

B. Roynon

(Chief Executive)

Signed _____

E. Cooke

(Mayor)

CONSOLIDATED REVENUE ACCOUNT

This statement brings together the income and expenditure of all the services provided by the Council, and shows the gross expenditure, income and net expenditure analysed by Portfolios and how it was financed. The summary includes recharges made between portfolios including the reallocation of support services costs.

<u>2003/04</u>			<u>2004/05</u>		
<u>Net</u>	<u>Net Portfolio Expenditure</u>	<u>Notes</u>	<u>Gross</u>	<u>Income</u>	<u>Net</u>
<u>Expenditure</u>			<u>Expenditure</u>	<u>£000's</u>	<u>Expenditure</u>
<u>£000's</u>			<u>£000's</u>		<u>£000's</u>
	Continuing Services				
5,556	Central Services to the Public		52,686	(49,620)	3,066
44,783	Cultural, Environmental and Planning Services		61,741	(15,391)	46,350
128,747	Education Services		166,208	(42,239)	123,969
10,146	Highways, Roads and Transport Services		23,150	(12,181)	10,969
20,563	Housing Services		78,902	(50,158)	28,744
59,972	Social Services		102,358	(36,718)	65,640
6,865	Corporate and Democratic Core		7,567	(114)	7,453
3,019	Non Distributable Costs		2,958	(29)	2,929
279,651	Net Cost of Services		495,570	(206,450)	289,120
(37,573)	Asset Management Revenue Account	9			(41,025)
6,732	Contributions to Other Local Authorities				737
(1,046)	Interest and Investment Income				(1,307)
7,080	Pensions Interest Costs & Expected Return on Assets				6,470
254,844	Net Operating Expenditure		495,570	(206,450)	253,995
(17,045)	Transfers from Other Earmarked Reserves				(5,086)
(8,010)	Contribution from the Pensions Reserve				(11,120)
(4,276)	Provision for the Repayment of Debt	5			947
3,041	Revenue Contributions to Capital Expenditure				8,436
(62)	Transfer to/from HRA Major Repairs Reserve				(62)
3,727	Contribution to/(from) HRA Balances				691
(1,584)	Contribution to DRF from Revenue Reserves				(5,894)
230,635	Amount to be met from Government Grants and Local Taxation				241,907
(103,999)	General Government Grants				(114,800)
(65,910)	Non - Domestic Rates Redistribution				(61,790)
(61,970)	Demand on Collection Fund				(65,759)
(300)	Transfers to the Collection Fund in respect of Surpluses/Deficits				465
(1,544)	Net General Fund (Surplus)/Deficit				23
(11,651)	Balance on General Fund brought forward				(13,195)
(13,195)	Balance on General Fund carried forward				(13,172)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires a local authority to keep a separate account of its expenditure on publicity. Expenditure on publicity in 2004/05 is set out in the table below. This includes the regular publications of City News and Housing Link.

<u>2003/04</u> £000's		<u>2004/05</u> £000's
1,013	Recruitment Advertising	965
668	Other Advertising	700
434	Other Publicity	698
<u>2,115</u>		<u>2,363</u>

2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit making charities within the UK and mayoral appeals. The Council's expenditure for 2004/05 was £193,040 (2003/04 was £162,100).

3. Leasing and Hire Purchase Contracts

a) Finance Leases

The Council holds various capital assets, principally vehicles under finance leases. During 2004/05 £1,000 of finance lease rentals were paid. No new finance leases were entered into during the year.

b) Operating Leases

During 2004/05, £3,852,700 was paid out in respect of operating lease rentals. As at 31st March 2005 the Council has a commitment to meet the following leasing rentals.

<u>Operating Leases</u>			
	Vehicles & Equipment £'000's	Other Land & Buildings £'000's	Total £'000's
2005/06	1,646	2,034	3,680
2006/07 - 2009/10	2,764	3,270	6,034
2010/11 -2017/18	85	488	573
			<u>10,287</u>

A requirement under the Accounting Code of Practice 1998 is for operating leases to be accounted for net of benefits received or receivable, as some leasing companies offer a cash incentive at the start of the lease. The Code now requires this incentive to be accounted for over the term of the lease. The City Council has no leases that fall into this category.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

4. Local Authority (Goods and Services Act 1970)

Income and Expenditure incurred under this Act relates to arrangements entered into by the City Council to supply goods and services to other public bodies. An analysis is given below which reflects that in most cases the charges are set to recover costs.

	<u>Income</u> £000's	<u>Expenditure</u> £000's
Support Services	105	105
City Housing	57	57
Leisure	24	24
Education	1,512	1,512
	<u>1,698</u>	<u>1,698</u>

5. Minimum Revenue Provision

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. The method of calculating the provision is defined by statute. There has been a reduction in the amount charged to revenue between 2003/04 and 2004/05, as there is no longer a requirement for the HRA to provide for repayment of debt, (it was previously 2% of outstanding balance carried forward). The Council have decided to continue with the Commutation adjustment, but this is now discretionary.

The provision that has been included in the service revenue accounts is summarised as follows:

<u>2003/04</u> £000's		<u>2004/05</u> £000's
5,815	Amount charged to revenue	5,051
12,139	Major repairs allowance (MRA)	11,788
<u>(754)</u>	Credit to revenue (commutation adjustment)	<u>(604)</u>
17,200		16,235
<u>(21,476)</u>	Less depreciation & Impairment already charged	<u>(15,288)</u>
<u>(4,276)</u>		<u>947</u>

6. Members Allowances

The total of members allowances paid in 2004/05 was £618,700.

7. Divisional Over and Under Recoveries

All Divisions within the Authority act as pseudo trading undertakings where they are required to break even by generating income from recharges to other Divisions and Portfolios.

8. Officers Emoluments

The number of employees whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table on [page 17](#).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Band £</u>	<u>Number of Employees</u>
50,000 - 59,999	34
60,000 - 69,999	13
70,000 - 79,999	7
80,000 - 89,999	3
90,000 - 99,999	1
100,000 - 109,999	1
110,000 - 119,999	0
120,000 - 129,999	1

9. Asset Management Revenue Account

This account consolidates interest payable on loans and depreciation with the charges made to services for the use of assets. The balance on this account is transferred to the Consolidated Revenue Account. The impact of the capital charges, which are calculated on a notional basis, is therefore nil. The analysis for 2004/05 is shown below:

	<u>General Fund</u> £000's	<u>HRA</u> £000's	<u>Total</u> £000's
<u>Expenditure</u>			
External Interest	2,403	4,329	6,732
Internal Interest	508		508
Depreciation	3,438	11,850	15,288
Impairment	0		0
Other	(866)		(866)
	5,483	16,179	21,662
LESS: Capital Charges	(21,710)	(40,977)	(62,687)
Income to Revenue Account	(16,227)	(24,798)	(41,025)

10. Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued. There were none during 2004/05.

11. Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Building Regulations Charging Account 2004/05</u>			
	<u>Chargeable</u>	<u>Non Chargeable</u>	<u>Total Building</u>
	£000's	£000's	Control
			£000's
<u>Expenditure</u>			
Employee expenses	300	88	388
Premises	0	0	0
Transport	12	4	16
Supplies & Services	63	2	65
Central & Support Services	203	45	248
Total Expenditure	578	139	717
<u>Income</u>			
Building Regulation charges	955	15	970
Miscellaneous income	310		310
Total Income	1,265	15	1,280
Surplus/(Deficit) for Year	687	(124)	563

12.Pensions

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

In 2004/05, the Council paid an employer's contribution of £12.70 Million into Hampshire County Council's Pension Fund. The contribution rate is determined by the Fund's Actuary, based on triennial valuations. The employer's rate in 2004/05 was 225% of employee's contributions and was set following the 2001 actuarial valuation. The rate set for 2005/06 is 250% this follows the result of the valuation at 31st March 2004.

The authority 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 retirement benefits is reversed out of the CRA after Net Operating Expenditure. The table on [page 19](#) shows the transactions that have been made in the CRA during the year.

In addition the Council is responsible for all pension payments relating to added years benefits and gratuity pensions it has awarded, together with the related increases.

The Capital Cost of discretionary increases in pension costs were:

- | | | |
|-----|--|--------|
| (a) | Approved in the year | £1.1M |
| (b) | In earlier years for which payments are still being made | £16.6M |

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. For information regarding the Council's pension assets and liabilities see [pages 39-40](#).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Local Government Pension Scheme</u>				
	<u>2003/04</u>		<u>2004/05</u>	
	£000's	£000's	£000's	£000's
<u>Costs Shown in Net Cost of Service</u>				
Current service costs		11,780		17,190
Past service costs		260		160
<u>Net Operating Expenditure</u>				
Interest Cost	18,170		20,800	
Expected return on assets in the scheme	(11,090)		(14,330)	
		7,080		6,470
<u>Amounts to be met from Government</u>				
<u>Grants and Local Taxation</u>				
Movement on pensions reserve		(8,010)		(11,120)
<u>Actual amount charged against Council</u>				
<u>Tax for pensions in the year</u>				
Employer's contributions payable to scheme		11,110		12,700

Teachers' Pensions

In 2004/05 the City Council paid £6.6 M to the Department of Education in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, the City Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2004/05 these amounted to £0.31 M representing 0.06% of pensionable pay.

13. Related Party Transactions

The Accounting Code of Practice 1998 requires the Council to disclose material transactions with related parties. This has been 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
- The Council's pension fund

During the year major transactions with related parties arose with; Hampshire Superannuation Fund and Teachers Pensions Agency as disclosed in note 12 above; Hampshire Police Authority precept of £7,008k and Hampshire Fire & Rescue Services precept of £3,318k shown in the Collection Fund, [page 26](#), and Central Government which has effective control over the general operational 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; these are set out in the cash flow statement and notes, [pages 45-47](#).

As at 31st March 2005, monies outstanding from related parties included VAT £3.6m; Housing Benefits (Department for Works & Pensions) £5.6m and Non Domestic Rates (Office of Deputy Prime Minister) £5.1m. There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of National Insurance and PAYE £4m; Local Government Superannuation £1.5m; Teacher's Superannuation £0.7m; SEEDA (South East England Development Agency) £0.7m and ODPM £2,1m in respect of Housing Capital Receipts Pool.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

For the elected members and chief 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 chief officers were requested to disclose any related party transactions; no material transactions were disclosed for 2004/05.

14.Trading Activities

- Southampton City Training (SCT) and Southampton Information Technology Centre (ITEC) provide courses for individuals and as such constitute a trading activity, a loss of £3,500 was returned for 2004/05.
- Other trading activities include Trade Refuse and Solent Business Centre, which generated profits, of £25,300 and £185,100.

15.Disclosure of Audit Fees

The Authority incurred the following fees relating to external audit and inspection:

<u>2003/04</u>		<u>2004/05</u>
£		£
340,200	Statutory Audit & Inspection	279,100
131,700	Certification of Grant Claims and Returns	136,870
7,100	Other Services	22,934
<u>479,000</u>		<u>438,904</u>

The fees for other services related to specialist advice for work e.g. the European Social Fund Claim for 2003/04 and for 2004/05, work on reviewing the Urban Bus Challenge and supporting the IEG & PARIS Boards.

16.Undischarged Obligations

The Council has an obligation to make payment of an estimated £159.45m in respect of the PFI schools over the life of the contract.

17.Pooled Budgets

The Council operates two pooled fund memorandum accounts in accordance with the partnership agreements with Southampton City Primary Care Trust, entered into under section 31 of the Health Act 1999, as detailed below:

	Expenditure	2004/05		Net
		Funding		
	£	SCC	SCPCT	£
	£	£	£	£
Community Equipment	50,004	(50,000)		4
Learning Disability Development Fund	77,120	(653)	(88,000)	(11,533)
	<u>127,124</u>	<u>(50,653)</u>	<u>(88,000)</u>	<u>(11,529)</u>

HOUSING REVENUE ACCOUNT

The Housing Revenue Account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats. Although this account is also included within the Consolidated Revenue Account 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.

<u>2003/04</u>		<u>Notes</u>	<u>2004/05</u>
	Income		
(44,425)	Dwellings Rent (Gross)		(45,441)
(1,482)	Non-Dwelling Rents (Gross)		(1,472)
0	Tenant Charges for Services & Facilities		(582)
(426)	Leaseholder's Charges for Services and Facilities		(474)
(568)	Other Charges for Services and Facilities		0
(242)	Contributions Towards Expenditure		(174)
(28,310)	Housing Revenue Account Subsidy Receivable (including MRA)		(789)
0	Reduced Provision for Bad or Doubtful Debts		(638)
(84)	Housing Benefit Transfers		0
(75,537)	Total Income		(49,570)
	Expenditure		
13,304	Repairs & Maint./Contribution to Housing Repairs Account		13,434
8,936	Supervision & Management		8,122
4,374	Special Services		4,948
539	Rents, Rates, Taxes and Other Charges		778
0	Subsidy Limitation Transfer to General Fund		638
24,672	Rent Rebates		0
250	Increased Provision for Bad or Doubtful Debt		250
26,450	Cost of Capital Charges	8	29,127
12,139	Depreciation and Impairment of Fixed Assets		11,850
43	Debt Management Expenses		39
90,707	Total Expenditure		69,186
15,170	Net Cost of Services		19,616
(22,072)	Net HRA Income or Expenditure on the AMRA	8	(24,798)
37	Amortised Premiums and Discounts		37
(296)	HRA Investment Income	6	(434)
(7,161)	Net Operating Expenditure		(5,579)
5,290	Revenue Contribution to Capital Expenditure		4,950
1,907	HRA Contribution to Minimum Revenue Provision Repayment		0
(62)	Transfer (to)/from Major Repairs Reserve		(62)
(26)	Total (Surplus)/Deficit for the Year		(691)
(1,224)	Balance Brought Forward		(1,250)
(1,250)			(1,941)
(3,465)	Direct Revenue Financing Balance Brought Forward		(7,166)
(5,290)	Contribution From Revenue In Year		(4,950)
1,589	Applied for Capital		7,527
(7,166)	Balance Brought Forward		(4,589)
(8,416)	Total Balance Carried Forward		(6,530)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31st March 2005, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 6.44%. The total arrears were £3,137,648. Rents written off during the year amounted to £170,776. The main sources of rent income after allowing for voids of £635,576 are set out in the following table:

<u>2003/04</u> £000's		<u>2004/05</u> £000's
19,628	Rent met by Tenants	19,304
24,690	Rent Rebates	25,909
<u>44,318</u>		<u>45,213</u>

2. Housing Stock

During the year 1.43 % of lettable properties were vacant. Since 2004/05 service charges and supporting people charges have been charged separately from rents. The average rent for 2004/05 was £50.17 a week. The stock at the year-end was made up as follows:

<u>2003/04</u>		<u>2004/05</u>
18,000	Stock at 1st April	17,732
(269)	Less: Sales	(185)
1	Other/Demolitions	3
<u>17,732</u>	Stock at 31st March	<u>17,550</u>
<u>Consisting of :</u>		
5,709	Houses	5,630
12,009	Flats	11,906
14	Bungalows	14
<u>17,732</u>		<u>17,550</u>

3. Major Repairs Reserve

	<u>Land</u> £000's	<u>Dwellings</u> £000's	<u>Other</u> £000's	<u>Total</u> £000's
Opening Balance	0	0	0	0
Receipts in Year		(11,788)	(62)	(11,850)
Payments in Year		11,788	62	11,850
Closing Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

4. Capital Expenditure

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

<u>Capital Spending During 2004/05</u>	
	£000's
Housing Stock	18,863
Other Property	437
Total Capital Expenditure (Accruals basis)	19,300
Expenditure b/f from 2003/04	507
Accruals b/f from 2003/04	207
Total Capital Expenditure (Payments basis)	20,014
<u>Capital Expenditure Source of Finance</u>	
	£000's
Capital Receipts	174
Borrowing	1,168
Grants	634
Transfer from Major Repairs Reserves	11,788
Contributions	388
Direct Revenue Funding	5,862
Total Financing	20,014

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.

<u>Housing Revenue Capital Receipts</u>	
	£000's
Opening Balance at 1st April 2004	266
Receipts in Year:-	
Sale of Assets	
Council Housing	10,570
Land, Buildings & Equipment	2
Repayment of Advances	173
Other	0
	<u>11,011</u>
Allowable deduction arising from Disposal	(292)
	<u>10,719</u>
Application in Year:-	
Inter Portfolio Transfer	(2,777)
Financing of new HRA Capital Expenditure	(174)
Pooled Receipts	(7,754)
Closing Balance at 31st March 2005	<u>14</u>

6. Interest Received

During 2004/05 the Housing Revenue Account received interest amounting to approximately £0.4 Million. The main sources of this income are detailed in the table below.

NOTES TO THE HOUSING REVENUE ACCOUNT

<u>2003/04</u> £000's		<u>2004/05</u> £000's
49	Council House Mortgages	32
<u>247</u>	Interest on Other Funds & Balances	<u>402</u>
<u><u>296</u></u>		<u><u>434</u></u>

7. Fixed Assets

Fixed assets are shown at a valuation of £871.7 Million, an increase of £39.9 Million. The basis of valuation is explained in more detail on [page 4](#). The value is based on stock as at the 31st March 2005, which has already accounted for capital expenditure and disposals during the year.

The vacant possession value of Council Housing within the authority's HRA as at 1st April 2004 was £1,255.2 Million, which is the Authority'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.

<u>Movements in Fixed Assets During 2004/05</u>					
	<u>Operational Assets</u>			<u>Non-Operational Assets</u>	<u>Total</u>
	<u>Council Dwellings and Garages</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Investment</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Net Book Value of Fixed Assets at 31 March 2004	816,287	4,472	740	10,338	831,837
Movement in 2004/05					
Capital Spend in Year			410		410
Revaluations					
Change in certified valuations	47,747	1,207		2,333	51,287
Depreciation for Year	(11,788)		(62)		(11,850)
Net Book Value of Fixed Assets at 31 March 2005	852,246	5,679	1,088	12,671	871,684

8. Asset Management Revenue Account

The cost of capital charge reflects the cost of capital tied up in the council housing and other HRA assets. It is calculated as 3.5% of the value of HRA operational assets. However this charge does not impact on the amount of income to be generated to achieve a balanced budget, the actual charge to the HRA is it's share of the total debt and financing costs to the Council. To reflect this, the capital asset

NOTES TO THE HOUSING REVENUE ACCOUNT

charges accounting adjustment is made as a credit to the HRA, being the difference between the cost of capital and the actual HRA debt charges.

	<u>2004/05</u> £000's
Cost of Capital Charge (3.5% of Op. Assets)	29,127
Cost of Capital Accounting Adjustment	(24,798)
HRA Debt Financing & Management Costs	<u>4,329</u>

9. General Housing Subsidy

The Government pays a General Housing Subsidy to the Housing Revenue Account. This is based on a notional account representing the Government's assessment of what the Council should be collecting and spending.

The table below shows a breakdown of the amount of HRA subsidy payable to the Council for 2004/05 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2004/05.

	<u>2004/05</u> £000's
Management and Maintenance	25,208
Major Repairs Allowance	11,788
Charges for Capital	5,839
Admissable Allowance	175
Anti Social Behaviour Allowance	1
Other Items of Reckonable Expenditure	0
Interest on Receipts	(44)
Guideline Rent Income	(42,688)
Housing Subsidy Entitlement	<u>279</u>

10. Provision for Bad Debts

Below is a breakdown of the amount that has been set aside for the provision of bad debts.

<u>2003/04</u> £000's		<u>2004/05</u> £000's
203	MRC Bad Debt Provision	123
<u>1,309</u>	Rents Bad Debt Provision	<u>1,387</u>
<u>1,512</u>		<u>1,510</u>

THE COLLECTION FUND

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

<u>Income and Expenditure for the Year Ended 31 March 2005</u>			
<u>2003/04</u>		<u>Notes</u>	<u>2004/05</u>
£000's			£000's
	<u>Income</u>		
62,515	Income from NDR Payers	1	59,942
57,562	Income Due from Tax Payers	2	62,995
11,183	Benefits	3	12,762
131,260	Total Income		135,699
	<u>Expenditure</u>		
61,970	Southampton City Council Precept	4	65,759
6,104	Hampshire Police Authority Precept	4	7,008
0	Fire & Rescue Services Precept	4	3,318
326	Distribution of previous year's surplus / (deficit)		(511)
61,394	Payments to the NNDR Pool		58,556
326	Interest on Overpayments		521
336	Allowance to General Fund for NDR Collection	5	332
978	Provision for Council Tax Bad Debts	6	1,147
458	Provision for NDR Bad Debts	6	534
131,892	Total Expenditure		136,665
633	(Surplus) / Deficit For the Year		966
(305)	(Surplus) / Deficit Brought Forward		328
328	Total (Surplus) / Deficit		1,293

The 2003/04 Income and Expenditure have been restated to separately identify Interest on Overpayments and Provision for NDR Bad Debts. This has not affected the Total Deficit for 2003/04.

NOTES TO THE COLLECTION FUND

1. Non-Domestic Rates

Income from Non-Domestic ratepayers is received by the Fund and paid in full to the Central Government Pool after an allowance is made to the City Council's General Fund for the costs of collection. The income due from NDR payers for 2004/05 has decreased compared with the previous year. The total Non-Domestic rateable value at 1st April 2004 was £167,344,192 with a "rate in the £" of 45.6 pence, which gives a total liability of £76.3 Million at this date. The difference between this and the actual income due from NDR payers of £58.9 Million as shown in the accounts, is mainly due to adjustments for transitional relief, mandatory charities relief, partly occupied and empty properties.

2. Council Tax Base

<u>Council Tax Base</u>			
	<u>Net Chargeable</u>	<u>Relevant</u>	<u>Band D</u>
	<u>Dwellings</u>	<u>Proportion</u>	<u>Equivalents</u>
Band A	22,453	6/9	14,969
Band B	26,633	7/9	20,715
Band C	18,536	8/9	16,476
Band D	7,942	1	7,942
Band E	2,651	11/9	3,240
Band F	1,227	13/9	1,772
Band G	395	15/9	658
Band H	11	18/9	22
	<u>79,848</u>		<u>65,793</u>

Taking the total Band D equivalents of 65,793.3 and multiplying this by the standard council tax of £1,176.43 gives a total estimated income from taxpayers of £77.4 Million. The income due from tax payers as shown in the accounts, is net of benefits and any transitional relief granted. The difference between the estimated and actual income from Council Tax is due to an increase in the number of ongoing and backdated exemptions.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2004/05 was 98.3%, giving a net Council Tax Base of 64,674.8. Multiplying this by the standard council tax of £1,176.43, gives the total precepts on the Collection Fund of £76.1 Million.

3. Benefits

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

4. Precepts

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

5. Allowance for NNDR Collection

A contribution to the General Fund is made to meet the costs of collection (£331,700).

NOTES TO THE COLLECTION FUND

6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £1.147 Million in 2004/05. At the 31st March 2005 the provision totalled £4.148 Million against a liability of £7.220 Million.

The contribution to the NDR Bad Debt provision is £0.534 Million in 2004/05. At the 31st March 2005 the provision totalled £0.352 Million against a liability of £1.426 Million.

CONSOLIDATED BALANCE SHEET

This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2005. Figures for ITEC and SCT, which are included, are based on unaudited accounts.

<u>2003/04</u>		<u>Notes</u>	<u>2004/05</u>	
£000's			£000's	£000's
0	FIXED ASSETS			
	Intangible Assets	2	201	
	Tangible Fixed Assets			
	<u>Operational Assets</u>			
816,287	Council Dwellings		852,246	
346,922	Other Land and Buildings		360,823	
5,571	Vehicles, plant, furniture, and equipment		5,885	
50,946	Infrastructure assets		59,898	
2,286	Community assets		2,388	
	<u>Non-Operational Assets</u>			
109,587	Investment Properties		119,141	
0	Assets under construction		2,243	
0	Surplus assets, held for disposal		1,284	
1,331,599		1	1,404,109	
226	Long Term Investments	3	226	
	Long Term Debtors	4		
781	Mortgages		599	
259	Other		175	
1,332,865	Non Current Assets			1,405,109
	<u>Current Assets</u>			
17	Work in Progress	5	3	
1,252	Stocks and Stores	6	1,475	
39,297	Debtors	7	40,902	
16,491	Short Term Investments		12,480	
1,586	Cash in Hand and Bank	8	180	
58,643			55,040	
	<u>Less Current Liabilities</u>			
(7,400)	Temporary Loans	9	(5,325)	
(4,005)	Loans falling due in year	10	(3,325)	
(40,894)	Creditors	7	(48,058)	
(6,975)	Bank Overdraft	8	(4,968)	
(59,274)			(61,676)	
(631)	Net Current Liabilities			(6,636)
1,332,234	Total Assets less Current Liabilities			1,398,473
(89,810)	Long Term Borrowing	10		(93,570)
(24,602)	Deferred Liabilities	11		(23,601)
(631)	Deferred Capital Balances	14		(459)
(7,412)	Provisions	13		(6,511)
(131,690)	Liability Related to Defined Benefit Pensions Scheme	23		(194,326)
(254,145)				(318,467)
1,078,089	Total Assets less Liabilities	22		1,080,006
	<u>Financed by:</u>			
942,221	Fixed Asset Restatement Account	15		983,772
12,047	Earmarked Revenue Reserves	16		13,287
200,748	Capital Financing Account	17		226,019
16,593	Capital Reserves	18		13,996
16,887	Government Grants Deferred	12		18,849
(131,690)	Pension Reserve	23		(194,326)
	<u>Revenue Balances</u>	19		
13,195	General Fund			13,172
8,416	Housing Revenue			6,530
(328)	Collection Fund			(1,293)
1,078,089	Total Equity			1,080,006

Signed E. Cooke (Mayor)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

Fixed assets are shown at a current valuation of £1,404 Million, an increase of £72.5 Million. The basis of valuation is explained in more detail on [page 4](#). The revaluations were undertaken by both the Authority's Valuers, under the guidance of Paul Mansbridge (FRICS), and by external Valuer Vail Williams, (partner in charge Matthew Samuel-Camps, MRICS). This valuation does not include certain Church and Voluntary Aided schools. These 5 schools have an estimated value of £20 Million.

The movement in Fixed Assets in the year comes about due to changes to asset valuations, disposals of existing fixed assets, new acquisitions and enhancements to assets funded by capital expenditure. Of the £47.2 Million spent on capital, £29.3 Million was written off, as it did not increase the value of the asset.

As a result of revaluations undertaken by the valuation department of the Council there is an increase in asset values of £63 Million, which also reflects the improvement in the property market. See [page 8](#) for details of methods of depreciation used.

Movements in Fixed Assets During 2004/05										
	Intangible Assets	Tangible Assets							Total	
		Operational Assets				Non - Operational Assets				
		Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000	Investment £000	Under Construction £000		Surplus held for Disposal £000
Certified Valuation at 31 March 2004	0	816,287	357,759	7,687	52,175	2,286	101,779	0	0	1,337,973
Less Accumulated Depreciation/Impairment			(3,029)	(2,116)	(1,229)					(6,374)
Net Book Value of Fixed Assets at 31 March 2004	0	816,287	354,730	5,571	50,946	2,286	101,779	0	0	1,331,599
Movement in 2004/05										
Adj between classes			(8,454)				7,313		1,141	0
Previous Years Adj's			8,411	(148)		(13)	(342)			7,908
Additional Assets	201		3,071	1,822	9,967	115	399	2,243		17,818
Disposal of Assets							(1,205)			(1,205)
Revaluations										
Change in certified valuations		47,747	4,168		22		11,197		143	63,277
Depreciation for Year		(11,788)	(1,103)	(1,360)	(1,037)					(15,288)
Impairment losses for past year										0
Net Book Value of Fixed Assets at 31 March 2005	201	852,246	360,823	5,885	59,898	2,388	119,141	2,243	1,284	1,404,109

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

<u>Capital Expenditure Source of Finance</u>	
	£000's
Supported Borrowing	12,235
Unsupported Borrowing	132
Capital Receipts	10,952
Grants	15,379
Major Repairs Allowance	11,788
Contributions	3,283
Direct Revenue Financing	5,937
Car Parking Surplus	833
Total	60,539
Less Deferred Charges	(7,955)
Total	52,584

NOTES TO THE CONSOLIDATED BALANCE SHEET

<u>Capital Spending During 2004/05</u>	
<u>Service</u>	£000's
Communities & Regeneration	1,189
Corporate Services	2,267
Environment & Transport	10,625
Finance	3
Health & Social Care	1,276
Leader's Portfolio	319
Leisure Culture & Tourism	3,455
Lifelong Learning & Training	9,624
Housing General Fund	7,058
Total General Fund	35,815
Housing Revenue Account	19,300
Total	55,115
Less Deferred Charges	(7,955)
Total Capital Expenditure (Accruals basis)	47,160
Expenditure b/f from 2003/04	4,304
Accruals b/f from 2003/04	1,120
Total Capital Expenditure (Payments Basis)	52,584

The Council has a number of major contracts that run beyond 31st March 2005, totalling £16.2 Million, these are summarised below:

<u>Significant Commitments for Capital Expenditure After 31 March 2005</u>	
	£000's
Decent Homes	4,405
Housing Associations	2,698
Housing Renovation Grants	1,759
Modernisation of Southampton Day Services	1,338
Desktop Refresh Strategy	806
Redbridge Flyover	766
Backlog Capital Works to Properties	513
DDA Compliance	337
Refurbishment of HRA Properties	312
Other	3,229
Total	16,163

NOTES TO THE CONSOLIDATED BALANCE SHEET

A summary of the major assets (excluding investment properties) owned by the Council is as follows:

<u>Estimate of Major Fixed Assets of the Council</u>	
	<u>31.3.05</u>
	No,s
Council Dwellings	17,550
Civic Centre	1
Depots	2
Central and Area Offices	4
Infant/Primary schools	45
Junior Schools	18
Secondary Schools	14
Special schools	13
Activity Centres and Youth Clubs	12
Social Services-residential centres	10
Social Services-day centres	8
Off Street Car Parks	54
Libraries	8
Leisure Centres and Pools	6
Museums, Galleries and Related	6
Roads-Length (km)	589
Open Spaces and Recreation Areas (hectares)	977
Markets	1
Cemeteries	6
Crematorium	1
Toilets	28
Ski Slope	1
Golf Course	1
Local Housing Offices/Advice Centres	13
Laboratory	1

2. Intangible Assets

From 2004/05 Intangible assets are disclosed separately. Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entry through custody or legal right”. The types of assets normally included within this definition are purchased software.

Intangible assets are amortized to service accounts (from the year following acquisition) over their economic lives.

	£000's	£000's
	<u>31.3.04</u>	<u>31.3.05</u>
	£000's	£000's
Balance Brought Forward	0	0
Expenditure in Year	0	201
Written off to Revenue in Year	0	0
Total	<u>0</u>	<u>201</u>

Expenditure on intangible assets in the year includes £151k on Desktop Refresh Software and £50k on Social Services Care Management System Software. The Desktop Refresh Software will be written off over it's 4 year life starting from 2005/06. The Social Services Care Management System Software will be written off over it's 10 year life starting from 2005/06.

NOTES TO THE CONSOLIDATED BALANCE SHEET

3. Long Term Investments

This figure includes the investments of Trust Funds for which the Council is the sole trustee. A large proportion of Trust Fund balances, are invested internally and are directly credited with interest at current market rates.

Internal funds are utilised in lieu of external borrowing. On consolidation, these investments are netted off and only external investments are shown.

These investments are shown in the balance sheet at cost. The estimated market value of these external investments of the Council is:

	<u>Cost</u> £000's	<u>Market Value</u> £000's
Council Funds	40.5	37.1
Trust Funds	185.8	255.3
Total	226.3	292.4

4. Long Term Debtors

a) 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. The balance is analysed in the following table:

<u>31.3.04</u> £000's	<u>31.3.05</u> £000's
629 Sale of Council Houses	458
123 Housing Associations	119
29 Housing Act Advances	22
781	599

b) 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 an employee who has not renewed a car lease option. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

5. Work in Progress

Work in progress is work undertaken on a job, which has not yet been completed or charged for. The Direct Service Organisation work in progress in respect of other Council services is eliminated on consolidation of the accounts.

The table on [page 34](#) analyses work in progress between the DSO and the General Fund. As can be seen of the total work in progress of £5.4 Million, virtually all is internal to the Council.

NOTES TO THE CONSOLIDATED BALANCE SHEET

<u>31.3.04</u> £000's		<u>31.3.05</u> £000's
	<u>General Fund</u>	
1,481	Highways	2,055
3,690	Property Maintenance	1,196
0	Building Contracts	1,793
29	Other DSO	348
17	Works in Default	3
5,217		5,395
(5,200)	Less Internal Work in Progress	(5,392)
17		3

6. Stocks and Stores

A summary of stocks and stores is as follows:

<u>31.03.04</u> £000's		<u>31.03.05</u> £000's
	<u>General Fund</u>	
95	Engineer's Stores	108
129	Woodmill shop	229
644	Central Stores	707
71	Catering	68
89	Gas Van	114
224	Other	249
1,252		1,475

7. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31st March 2005.

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 the Inland Revenue by the 31st March 2005.

Inter-Portfolio Debtors and Creditors, including the Direct Service Organisation, cancel each other out when the Consolidated Balance Sheet is produced.

Major debtors and creditors are shown on the following tables, some have been restated for 2003/04, either because their current balance is now above £0.5m and are now classified as a significant Debtor or Creditor or because accounts have been reclassified in preparation for the Whole of Government Accounts. There has been no overall change in the figures for 2003/04.

NOTES TO THE CONSOLIDATED BALANCE SHEET

<u>Debtors</u>		<u>2003/04</u> £000's	<u>2004/05</u> £000's	
	<u>General Fund</u>			
23,027	Sundry Debtors		24,891	
103	Leasing		2,215	
2,669	VAT		3,609	
8,731	Collection Fund		11,375	
9,374	Housing Benefits		5,582	
<u>43,904</u>			<u>47,672</u>	
(486)	LESS Internal Debtors		(346)	
<u>(7,733)</u>	Provision for Bad Debts		<u>(9,515)</u>	
		35,685		37,811
6,746	Housing Revenue Account		5,584	
<u>(3,134)</u>	LESS Provision for Bad Debts		<u>(2,493)</u>	
		3,612		3,091
	<u>39,297</u> Total Debtors		<u>40,902</u>	

<u>Creditors</u>		<u>2003/04</u> £000's	<u>2004/05</u> £000's
	<u>General Fund</u>		
31,359	Sundry Creditors		35,588
3,652	National Insurance & PAYE		4,022
0	Office of the Deputy Prime Minister (ODPM)		2,077
739	Teachers Superannuation		746
1,209	Local Government Superannuation		1,507
1,850	Standards Fund		2,587
1,795	SRB 5		656
670	Building Control Competition A/C		477
542	Assylum Seekers Grant		479
1,035	External Loans		925
836	Collection Fund		2,044
0	Sure Start		766
<u>43,687</u>			<u>51,874</u>
2,894	Housing Revenue Account		1,922
<u>46,581</u>			<u>53,796</u>
<u>(5,687)</u>	Less Internal Creditors		<u>(5,738)</u>
	<u>40,894</u> Total Creditors		<u>48,058</u>

8. Bank Overdraft

The balance shown comprises:

	<u>31.3.04</u> £000's	<u>31.3.05</u> £000's
Bank Accounts	6,975	6,239
Petty Cash	(189)	(180)
City Training/ITEC	(1,397)	(1,271)
Total	<u>5,389</u>	<u>4,788</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

Although the balance shown suggests that the bank is overdrawn by over £4.8 Million this reflects end of year accounting entries and is not the actual cash position. The Council's balance in the Bank at the 31st March 2005 was actually a credit of £36,487.

9. Temporary Loans

These loans are of less than one year, raised almost entirely through the Money Market. Local Authorities may borrow temporarily pending the receipt of revenues and in order to finance capital expenditure. The value of short-term loans that may be outstanding at any time must not exceed the Council's annually determined short term borrowing limit

10. Loans Falling Due in Year and Long Term Borrowing

In the Consolidated Balance Sheet borrowing represents loans outstanding to external lenders.

<u>Outstanding</u> 31.3.04 £000's		<u>Outstanding</u> 31.3.05 £000's
	<u>Source of Loan</u>	
80,671	Public Works Loan Board	83,738
12,072	Other Financial Institutions	12,046
1,072	Trust and Other Sources	1,111
<u>93,815</u>		<u>96,895</u>
	<u>Analysis of Loans by Maturity</u>	
4,005	Up to 1 year	3,325
2,214	Between 1 and 2 years	3,220
10,103	Between 2 and 5 years	10,278
7,608	Between 5 and 10 years	7,213
69,885	More than 10 years	72,859
<u>93,815</u>		<u>96,895</u>

11. Deferred Liabilities

The balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1st April 1997.

12. Government Grants Deferred

The balance represents grants, which have been applied in previous years to finance capital expenditure and are being written down over the period of depreciation for the individual assets.

13. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined.

The Insurance Funds are used to meet claims that fall within the policy excess or deductible i.e. where the Authority has taken advantage of 'self-insurance'. All liability and property claims settled below £100,000 and £20,000 respectively are met from the internal insurance funds. All Directorates are required to contribute toward this fund as part of their annual insurance recharge. Contributions to the fund are reviewed annually based on factors such as exposure (e.g. employee numbers, nature of operations, value of property etc) claims experience and outstanding liabilities.

The estimated outstanding liability for 'claims reported but not settled' as at 31st March 2005 amounted to £3.89m. An independent actuarial investigation of the internal insurance fund was completed in January 2005 as part of a wider exercise in connection with the tender of the Council's insurance for 1st April 2005. The review, based on the fund position as at 31st August 2004, stated that the expected position of the insurance funds as at 31st March 2005 would show a deficit of £1.599m.

NOTES TO THE CONSOLIDATED BALANCE SHEET

The actual deficit between the fund balance and outstanding claims reserve figures was £746k. The shortfall is taken into account when assessing annual insurance recharges. The fund position is however fluid as claims are settled and new claims received however the insurance funds are monitored on a monthly basis.

The Provisions as shown in the balance sheet are analysed in the following table:

	£000's			
	<u>01.04.04</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.05</u>
		<u>in year</u>	<u>in year</u>	
General Fund				
Itchen Bridge Repairs	414	157	(13)	558
General Insurance Funds	3,343	3,998	(3,856)	3,485
Faulty Windows	112	0	(1)	111
UPVC Plant	158	0	0	158
Provision for Pay Review	562	0	(562)	0
Provision for Bad Debt-NRSW	951	0	(798)	153
Other Provisions	1,869	191	(17)	2,043
	<u>7,409</u>	<u>4,346</u>	<u>(5,247)</u>	<u>6,508</u>
Other				
Other Provisions	3	1	(1)	3
Total	<u><u>7,412</u></u>	<u><u>4,347</u></u>	<u><u>(5,248)</u></u>	<u><u>6,511</u></u>

14. Deferred Capital Balances

	£000's			
	<u>01.04.04</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.05</u>
		<u>in Year</u>	<u>in Year</u>	
Sale of Council Houses	631	10,321	(10,493)	459
	<u>631</u>	<u>10,321</u>	<u>(10,493)</u>	<u>459</u>

15. Fixed Asset Restatement Account

This reserve is debited or credited with the impact of the revaluation of assets. The size of the Reserve of £983.8 Million shows the major impact that the valuing of fixed assets has had on the Council's Accounts. It is, however only a notional reserve and cannot be used as a source of finance as it merely represents an amount that may be realised if assets are sold.

16. Earmarked Revenue Reserves

All interest earned on the reserves together with interest earned on General Fund Capital Receipts Unapplied is reflected in the General Fund Revenue account in 2004/05. The level of school balances is the result of the spending decisions of individual schools under the Local Management of Schools legislation. Each school's reserve will be available to it in future years. A statement of all Revenue Reserves is included in the Statement of Total Movements in Reserves, see [pages 42-44](#).

NOTES TO THE CONSOLIDATED BALANCE SHEET

17. Capital Financing Account

As a result of the accounting requirements for fixed assets this reserve has been created for transactions relating to capital finance. It comprises amounts set aside from revenue accounts for the repayment of loans less depreciation, expenditure on fixed assets financed from revenue, reserved proportion of capital receipts and capital receipts applied to finance expenditure on fixed assets. The movement for the year is analysed within the 'Statement of Total Movements in Reserves', see [pages 42-44](#).

18. Capital Reserves

These reserves represent sums available to meet future capital expenditure. A statement of all capital reserves is included in the Statement of Total Movements in Reserves.

19. Revenue Balances

The revenue balances on the General Fund and Housing Revenue Account represent sums set aside to meet the cost of unforeseen future expenditure or shortfalls in income.

The Collection Fund balance represents the Council Tax deficit of £1,293,400, a deficit of £1,116,500 remains after a deficit of £176,900 was taken into account in setting the 2005/06 Council Tax. The Collection Fund Account in respect of the Council Tax can be found on [page 26](#).

20. Capital Receipts

Capital receipts are generated from the sale of fixed assets. The following table shows the extent to which the capital receipts have been generated and utilised in the year. The closing balance is included within capital reserves.

	<u>Housing Revenue</u> <u>Account</u>	<u>General</u> <u>Fund</u>	<u>Total</u>
	£000's	£000's	£000's
Opening Balance at 1st April 2004	266	5,246	5,512
Receipts in Year:-			
Sale of Assets			
Council Housing	10,570	0	10,570
Land, Buildings & Equipment	2	5,479	5,481
Repayment of Advances	173	8	181
Other	0	230	230
	11,011	10,963	21,974
Allowable deduction arising from Disposal	(292)		(292)
	10,719	10,963	21,682
Application in Year:-			
Inter Portfolio Transfer	(2,777)	2,777	0
Financing of new Capital Expenditure	(174)	(10,778)	(10,952)
Transferred for use in 2005/06	0	(210)	(210)
Pooled Receipts	(7,754)	0	(7,754)
Closing Balance at 31st March 2005	14	2,752	2,766

21. Contingent Liabilities

Contingent Liabilities are potential liabilities, which are not legally enforceable but may become so on the happening of a future event. Since these events are not expected to arise no provision has been made for them in the accounts.

NOTES TO THE CONSOLIDATED BALANCE SHEET

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.

22. Analysis of Net Assets Employed

In accordance with SSAP 25 there is a requirement to disclose the breakdown of the Authority's overall net asset position. This is detailed below:

<u>2003/04</u> £000's	<u>2004/05</u> £000's
244,550	206,136
832,559	872,857
980	1,013
<u>1,078,089</u>	<u>1,080,006</u>

23. FRS 17

In accordance with Financial Reporting Standard No 17- Retirement Benefits (FRS 17), there is a requirement to disclose certain information concerning assets, liabilities, income and expenditure related to employee pension schemes.

Southampton City Council participates in the Local Government Pension Scheme. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The most recent valuation was carried out as at 31 March 2004, and has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2005. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Southampton City Council's standard contribution rate over the accounting period was 225% of members' contributions.

The contribution rates certified for Southampton City Council at the 31 March 2004 valuation are as follows:

April 2005 to March 2006	250% of Employee's contributions
April 2006 to March 2007	275% of Employee's contributions
April 2007 to March 2008	295% of Employee's contributions

These figures include the past service element of the contribution rate.

The main assumptions used for the purposes of FRS 17 are as follows:

	31 March 2005	31 March 2004
Inflation	2.9% pa	2.9% pa
Rate of general long-term increase in salaries	4.4% pa	4.4% pa
Rate of increase in pensions in payment	2.9 % pa	2.9% pa
Discount Rate for scheme liabilities	5.3% pa	6.4% pa
Discount rate for pension cost over following year	5.3% pa	5.4% pa

NOTES TO THE CONSOLIDATED BALANCE SHEET

The market value of the assets of the Hampshire County Council Pension Fund at 31 January 2005 was £2,094.79M. The assets as at 31 March 2005 have been estimated using index returns. Further detail is set out below.

	Long-term rate of return expected at 31 st March 2005 (% pa)	Estimated Value at 31 st March 2005 (£M)	Long-term rate of return expected at 31 st March 2004 (% pa)	Value at 31 st March 2004 (£M)
Equities	7.7	1,463.32	7.7	1,344.73
Property	6.7	84.83	6.7	70.84
Government Bonds	4.7	470.81	4.7	407.57
Corporate Bonds	5.3	0.00	5.5	0.00
Other Assets	4.8	101.80	4.2	102.00
Total	6.9	2120.76	6.9	1,925.14

The proportions of total assets held in each asset type, shown above, reflect the proportions held by the Fund as a whole at 31 March 2004 and 31 March 2005.

The following amounts were measured in accordance with the requirements of FRS 17:

	31 March 2005 (£m)	31 March 2004 (£m)
Share of assets in the Fund	262.07	204.38
Estimated liabilities in the Fund	(436.93)	(319.87)
Estimated liabilities of discretionary benefits	(19.47)	(16.20)
Southampton City Council's deficit in the Fund	(194.33)	(131.69)

The Fund's solvency level on 31 March 2004 was 68.6%, well down on the previous valuation on 31 March 2001 when it stood at 88.1%. This is for two main reasons.

- Poor investment returns in 2001/02 and 2002/03.
- Increased life expectancy.

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £194m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

Note 12 on [pages 18 - 19](#) to the Consolidated Revenue Account contain details of the transactions arising from the Authority's participation in the Local Government Pension scheme.

NOTES TO THE CONSOLIDATED BALANCE SHEET

24.EURO

The introduction of the Euro currency would have a major impact on the City Council's business activities and support systems. The authority would incur a variety of costs including those relating to staff training, provision of information to customers and the replacement of existing equipment. The authority is currently balancing the commitment of resources needed to support the possible implementation of the Euro against the likelihood of retaining sterling as its currency. Notwithstanding this, the potential for the country's future adoption of the euro is considered as part of the Council's strategy for the on-going improvement and replacement of its business support systems. All new systems or upgrades are required to be 'Euro Compliant'.

There are no particular commitments in respect of costs to be incurred, nor is there any exceptional expenditure anticipated.

25.Post Balance Sheet Events

There are no significant post balance sheet events to report.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

This statement brings together all the gains, losses and movements in the year of revenue and capital reserves. It analyses the movement in the reserves from 2003/04 to 2004/05.

	2003/04	2004/05	
	£'000	£'000	£'000
Surplus/(deficit) for the year:			
- General Fund	1,544	(23)	
- HRA	3,727	(1,886)	
- Collection Fund	(634)	(965)	
add back Movement on earmarked revenue reserves (see analysis on page 44)	2,437	1,240	
deduct Appropriation from pension reserve	(9,810)	(110,886)	
Actuarial gains and losses relating to pensions (see analysis on page 44)	21,500	48,250	
Total increase/(decrease) in revenue resources (note 1)	18,764		(64,270)
Increase/(decrease) in useable capital receipts	5,483	(2,746)	
Increase/(decrease) in unapplied capital grants & contributions	2,576	149	
Total increase/(decrease) in realised capital resources (note 2)	8,059		(2,597)
Total increase/(decrease) in unrealised value of fixed assets (note 3)	87,175		42,756
Value of assets sold, disposed of or decommissioned (note 4)	(21,381)		(1,205)
Capital resources allocated to fund capital investments	34,860	41,402	
Net revenue resources used to fund capital investments	(27,776)	(16,131)	
Movement on Grants & Contributions Deferred	4,755	1,962	
Movement on Major Repairs Reserve	0	0	
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	11,839		27,233
Total recognised gains and (losses)	104,456		1,917

NOTES

Revenue Resources

	General			Earmarked	
	Fund			HRA	
	Balances	Balances	Fund	Reserve	Reserve
	£000's	£000's	£000's	£000's	£000's
1. Movement in Revenue Resources					
Surplus/(deficit) for 2004/05	(23)	(1,886)	(965)	0	
Appropriations to/from revenue				1,240	110,886
Actuarial gains and (losses) relating pensions					(48,250)
	(23)	(1,886)	(965)	1,240	62,636
Balance Brought Forward at 1 April 2004	13,195	8,416	(328)	12,047	(131,690)
Balance Carried Forward at 31 March 2005	13,172	6,530	(1,293)	13,287	(194,326)

STATEMENT OF TOTAL MOVEMENT IN RESERVES

Capital Resources

	<u>Useable Capital Receipts</u> £000's	<u>Unapplied Capital Grants & Contributions</u> £000's
2.Movement in realised Capital Resources		
Amounts receivable in 2004/05 less PCL	9,489	22,888
Amounts Applied to finance new Capital Investment in 2004/05	<u>(12,235)</u>	<u>(22,740)</u>
Total increase/(decrease) in realised Capital Resources in 2004/05	(2,746)	149
Balance Brought Forward at 1 April 2004	5,512	11,081
Balance Carried Forward at 31 March 2005	<u><u>2,766</u></u>	<u><u>11,230</u></u>

Fixed Assets Restatement Account

	<u>Fixed Asset Restatement Account</u> £000's
Revaluation and Restatement of Fixed Assets	63,277
Exp. Not resulting in a change in Asset Values	(29,333)
Movement in Deferred Liabilities	904
Prior Year Adjustments	7,908
Impairment /Depreciation on Revaluation or disposal of Fixed Assets	<u> </u>
Total increase/(decrease) in unrealised Capital Resources in 2004/05	42,756
4.Value of Assets Sold, Disposed of or Decommissioned	
Amounts written off fixed asset balances for disposals in 2004/05	<u>(1,205)</u>
Total Movement on Account in 2004/05	41,551
Balance Brought Forward at 1 April 2004	942,221
Balance Carried Forward at 31 March 2005	<u><u>983,772</u></u>

Capital Investments

	<u>Capital Financing Account</u> £000's	<u>Grants & Contributions Deferred</u> £000's	<u>Total</u> £000's
5.Movement in amounts set aside to Finance Capital Investment			
CAPITAL RESOURCES			
Usable capital receipts	10,952		
Capital Grants & Contributions	18,663		
Major Repairs Reserve	<u>11,788</u>		
	41,402		41,402
REVENUE RESOURCES			
Revenue contributions	6,770		
Deferred charges written down	(7,955)		
MRP less depreciation (net of government grants deferred)	<u>(14,946)</u>		
	(16,131)		(16,131)
Grants & Contributions applied to Capital Investment in 2004/05		2,826	
Amounts credited to the Asset Management Revenue Account in 2004/05		<u>(864)</u>	
Movement on Grants & Contributions Deferred		1,962	1,962
Total increase/(decrease) in amounts set aside to finance Capital Investment			<u>27,233</u>
Total Movement on Reserve in 2004/05	<u>25,271</u>	<u>1,962</u>	
Balance Brought Forward at 1 April 2004	200,748	16,887	
Balance Carried Forward at 31 March 2005	<u><u>226,019</u></u>	<u><u>18,849</u></u>	

STATEMENT OF TOTAL MOVEMENT IN RESERVES

Revenue Reserves

	<u>Balance at</u> <u>31.03.04</u>	<u>Net</u> <u>(Surplus)/</u> <u>Deficit for</u> <u>Year</u>	<u>Balance at</u> <u>31.03.05</u>
Revenue Reserves	£000's	£000's	£000's
HCC Admin/Sals Adjustment	(12)	0	(12)
PFI Sinking Fund	(2,521)	(1,579)	(4,100)
Non Capital Receipts	(67)	67	0
School Balances	(5,464)	100	(5,364)
On Street Parking	(1,026)	129	(897)
Deferred Capital Receipts	(34)	0	(34)
Trust Funds	(672)	30	(642)
Transport Repairs Equalisation	(462)	0	(462)
Invest to Save	(750)	0	(750)
Other Balances	(47)	47	0
Housing Act Advances	(13)	(1)	(14)
City Training/I TEC	(979)	(33)	(1,012)
	<u>(12,047)</u>	<u>(1,240)</u>	<u>(13,287)</u>

Actuarial Gain / Losses Relating to Pensions

Actuarial Gain/(Loss) for Year					
	<u>2003/04</u>		<u>2004/05</u>		
	£000's	%	£000's	%	
Actual return less expected return on assets	20,910	10.2	9,200	3.5	of scheme assets
Experience gains and losses on pension liabilities	(180)	0.1	23,240	5.3	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	770	0.2	(80,690)	(18.5)	of scheme liabilities
	<u>21,500</u>	6.7	<u>(48,250)</u>	(11.0)	

CASH FLOW STATEMENT

This statement shows in summary form the inflow and outflow of cash during the year.

<u>2003/04</u>		<u>2004/05</u>
£000's	Revenue Activities	£000's £000's
	<u>Cash Outflows</u>	
219,284	Cash paid to and on behalf of employees	232,572
30,041	Housing Benefits paid out	30,286
63,778	Payments to NNDR Pool	63,663
0	Fire & Rescue Precept	3,318
6,104	Hampshire Police Authority Precept	7,008
0	Payments to the Capital Receipts Pool	5,542
115,457	Other Operating Costs (cash payments)	118,557
434,664	Total Cash Outflows	460,946
	<u>Cash Inflows</u>	
(27,637)	Rents (after Rebates)	(29,500)
(57,455)	Council Tax Income	(63,030)
(68,819)	Non-domestic Rate Income - Payers	(68,637)
(65,910)	Non-domestic Rate Income - Pool	(61,790)
(103,999)	Revenue Support Grant	(114,799)
(32,520)	Housing Benefits	(74,369)
(27,816)	HRA Subsidy (incl Rent Rebates for 0304)	(279)
(2,544)	Other Government Grants	(2,458)
(89,766)	Other Revenue Cash Payments/Income	(67,627)
(476,466)	Total Cash Inflows	(482,489)
(41,802)	Net Cash Inflow from Revenue Activities (Note 1)	(21,543)
	Returns on Investments and Servicing of Finance	
	<u>Cash Outflows</u>	
6,483	Interest Paid	6,619
	<u>Cash Inflows</u>	
(851)	Interest Received	(1,292)
5,632		5,327
	Capital Activities	
	<u>Cash Outflows</u>	
56,864	Expenditure on Fixed Assets	57,175
	<u>Cash Inflows</u>	
(23,834)	Sale of Fixed Assets	(16,051)
(9,431)	Capital Grants Received	(16,363)
(6,694)	Other Capital Cash Receipts	(4,265)
(39,959)		(36,679)
16,905		20,496
(19,265)	Net Cash(Inflow)/Outflow before Financing	4,280
	Management of Liquid Resources	
3,691	Net Increase/(Decrease) in Short-Term Deposits	(4,011)
	Financing	
	<u>Cash Outflows</u>	
109,013	Repayments of Amounts Borrowed	116,595
	<u>Cash Inflows</u>	
(2,000)	New Long Term Loans Raised	(6,000)
(107,900)	New Short Term Loans	(111,465)
(109,900)		(117,465)
(16,461)	Net (Increase)/Decrease in Cash (Note 2)	(601)

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of Revenue Account Deficit to Net Cash Flow from Revenue Activities

<u>2003/04</u> £000's		<u>2004/05</u> £000's
(1,544)	General Fund	23
(3,727)	HRA	1,886
634	Collection Fund	965
<u>168</u>	ITEC and City Training	<u>4</u>
(4,469)		2,878
	<u>Add Back</u>	
(10,496)	Appropriations to Reserves	1,357
(14,511)	Non Cash Items	(15,735)
<u>(1,130)</u>	Provisions	<u>901</u>
(30,606)		(10,600)
	<u>Items on an Accruals Basis</u>	
(13)	Stock/WIP (decrease)/increase	209
(376)	Long Term Debtors (decrease)/increase	(266)
(5,125)	Short Term Debtors (decrease)/increase	1,605
<u>(50)</u>	Creditors (increase)/decrease	<u>(7,164)</u>
(36,170)		(16,216)
	<u>Items Classified in another classification in the Cash Flow Statement</u>	
851	Interest Received	1,292
(6,483)	Interest Paid	(6,619)
<u>(41,802)</u>	Net (inflow)/outflow	<u>(21,543)</u>

The figures for 2003/04 have been restated due to a formulation error, which showed an incorrect split on the movement of funds, there has however been no overall change in the net inflow.

2. Reconciliation of Net Cash Flow to Movements in Net Debt

	<u>2004/05</u> £000's
Increase / (Decrease) in Cash	601
Outflow to Repay Short Term Borrowing.	2,755
Inflow from New Long Term Borrowing	(3,760)
Purchase of Current Asset Investments	<u>(4,011)</u>
Movement in Net Debt	(4,415)
Net Debt at 01.04.04	(90,113)
Net Debt at 31.03.05	<u>(94,528)</u>

NOTES TO THE CASH FLOW STATEMENT

3. Analysis of Changes in Net Debt

	<u>01.04.04</u>	£000's <u>Movement</u>	<u>31.03.05</u>
Bank Overdraft	(6,975)	2,007	(4,968)
Cash in Hand and Bank	1,586	(1,406)	180
Debts Due:			
Within 1 Year	(11,405)	2,755	(8,650)
After 1 Year	(89,810)	(3,760)	(93,570)
Current Asset Investments	16,491	(4,011)	12,480
	<u>(90,113)</u>	<u>(4,415)</u>	<u>(94,528)</u>

4. Other Government Grants

<u>2003/04</u> £000's	<u>2004/05</u> £000's
1,714 Benefits Administration	1,632
494 Housing Defect Act	494
336 NNDR Collection Grant	332
<u>2,544</u>	<u>2,458</u>

TRUST AND OTHER FUNDS

The Council acts as trustee for legacies left by inhabitants of the City and as residual trustee for the Wessex Slaughterhouse Board.

The Trust Funds are:

- Chipperfield Trust – Purchase works of art and is subject to an independent audit and a separate report is required. The auditors have yet to be appointed.
- Dora Linton and L. C. Smith Bequests – Help maintain the Merchants Navy Memorial in Holyrood Church
- Ida Bany Bequest – Purchase books about America
- Thomas Morgan Bequest – Finance a local essay competition
- Ida Turnbull Bequest – Purchase of large print books made available for public use.
- Miss Orris Bequest – Purchase of pictures for the Art Gallery
- George Knee Fund – Provision of special annual prizes for Bitterne Park School.

The following Trust Funds were transferred from Hampshire County Council: -

- Aldridge Bequest – To facilitate the access of disadvantaged pupils to personal enrichment experiences
- De Gee – Annual treat for children of the former Hollbrook Children's home.

Other Funds are:

- Wessex Slaughterhouse Board – The Council has responsibility of the former constituent authorities to pay the pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between Authorities.
- Criminal Injuries Compensation Board – Funds are held on behalf of children under 18 who fall under the Councils supervision.
- Social Services Residents Account – This account holds personal monies on behalf of residents in old people's homes.

TRUST AND OTHER FUNDS

The Trusts and Other Funds are analysed as follows:

	<u>31.03.04</u>	<u>Receipts</u>	<u>Payments</u>	<u>31.03.05</u>
		£	£	
<u>Trusts</u>				
Chipperfield Trust	137,379	7,295	18,353	126,320
Dora Linton Bequest	1,999	88		2,087
Ida Bany Bequest	14,696	678	387	14,987
Thomas Morgan Bequest	69	1		70
L.C.Smith Bequest	96,137	9,461	37,816	67,782
Ida Turnbull Bequest	15,101	701	12,976	2,826
Miss Orris Bequest	171,964	7,979	2,110	177,833
Aldridge Bequest	229,737	14,591		244,328
D.E. Gee	721	33		754
George Knee	4,549	211		4,760
	<u>672,351</u>	<u>41,038</u>	<u>71,642</u>	<u>641,747</u>
<u>Other Funds</u>				
Wessex Slaughterhouse Board	1,100,258	51,071	40,063	1,111,266
Criminal Injuries Compensation Board	102,489	28,939	24,404	107,024
Social Services Residents Accounts	54,964	54,895	101,793	8,066
	<u>1,257,712</u>	<u>134,905</u>	<u>166,260</u>	<u>1,226,357</u>
Total	<u><u>1,930,063</u></u>	<u><u>175,943</u></u>	<u><u>237,902</u></u>	<u><u>1,868,104</u></u>

1. Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

2. Best Value

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

3. Budget

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

4. Capital Asset Charges

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

5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to 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 local authority intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

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 Local Authorities on its citizens.

11. Deferred Charges

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of a deferred charge is expenditure on improvement grants.

12. 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.

13. Direct Service Organisation (DSO)

The term Direct Service Organisation (DSO) is used to cover both Direct Labour Organisations (DLOs) established under the Local Government, Planning and Land Act 1980 and DSOs established under the Local Government Act 1988. The legislation relating to DSO's was replaced with the introduction of Best Value.

14. 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.

15. Fixed Assets

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

16. General Fund

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

17. Going Concern

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

18. 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 authority.

19. Housing Revenue Account

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

20. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

21. Long Term Investments

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

22.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.

23.National Non Domestic Rate

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

24.Net Book Value

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

25.Net Current Replacement Cost

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

26.Net Expenditure

Total expenditure for a service less directly related income.

27.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.

28.Non-Operational Assets

Fixed assets held by a local authority 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.

29.Operating Leases

A lease other than a finance lease.

30.Operational Assets

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

31.Post Balance Sheet Events

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

32.Revenue Expenditure/Income

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

33.Statement of Standard Accounting Practice (SSAP)

Accountancy practice's recommended by the Major Accounting Bodies. The application of SSAP's to local authorities is reflected in Statements of Recommended Practices (SORP's).

34.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.

35.Useful Life

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