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# EXPLANATORY FOREWORD

## FINANCIAL STATEMENTS

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently this foreword explains some of the statements and sections included within this document and provides a summary of the authority's financial performance for 2007/08.

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

The council's Statement of Accounts concentrates on clear and accurate reporting of the financial position of the council in relation to a particular year. It does not however aim to fulfil the role of an annual report of a company. This would duplicate much of the work already published in other documents produced by the council – in particular the City of Southampton Strategy, the Medium Term Service and Financial Plan and the Corporate Improvement Plan.

The statements are:

- *Accounting Policies* p7-17  
This statement details the Accounting policies followed by the Authority during 2007/08.
- *Responsibilities for the Statement of Accounts* p18  
This statement shows the responsibilities of the Council and the Chief Financial Officer.
- *Income and Expenditure Account* p19  
This statement reports the net cost for the year of all the services provided by the Council, including the HRA but excluding the Collection Fund. It demonstrates how the costs have been financed from general government grants and income from local taxpayers.
- *Statement of the Movement on the General Fund Balance* p20-21  
The statement brings together the surplus or deficit for the year from the Income and Expenditure Account, plus the net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year. It also shows the balances brought and carried forward.
- *Statement of Total Recognised Gains and Losses* p22  
The statement brings together all the gains and losses for the year. It includes the surplus or deficit on the Income and Expenditure Account for the year, the surplus or deficit arising on revaluation of fixed assets, any actuarial gains and losses on pension fund assets and liabilities plus any other gains and losses.
- *Balance Sheet* p23  
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2008.
- *Cash Flow Statement* p24  
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.

## EXPLANATORY FOREWORD

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|---|--|--------|
| ➤ | <i>Housing Revenue Account (HRA)</i><br>This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats. | p56-62 |
| ➤ | <i>Collection Fund</i><br>The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.          | p63-65 |
| ➤ | <i>Trust and Other Funds</i><br>This statement shows receipts and payments of funds for which the Council acts as trustee.                                     | p66-70 |

## FINANCIAL SUMMARY

The Statement of Accounts brings together all the financial activities of the Council for the year.

### Revenue Summary

Our revenue account bears the net cost of providing day-to-day services. In this section we will:

- compare actual spending to budget
- explain the big differences
- explain where the money came from
- show where the money went

### Comparing actual spending to budget

Our net expenditure budget for the year was set at £166.5M. This represents the net cost of services, taking into account:

- £1.5M of income from our investments
- £201.5M income from specific government grants and fees and charges for services provided

It also assumed a contribution from general reserves and working balances of £1.7 M.

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

- £90.1M of business rates and general government grant (Formula Grant)
- £73.9M of council tax income
- £0.7M of surplus on the Collection Fund

The original budget plans were revised during the course of the year and the contribution from working balances was revised to £3.5M compared to the originally planned £1.7M, an increase of £1.8M.

The final outturn for the year was £163.4M and we were able to contribute £1.3M to working balances instead of taking £3.5M from them.

Overall there was a net reduction in the use of the Authority's reserves and general balances in the year of some £4.8M compared with the revised budget.

# EXPLANATORY FOREWORD

## Explaining the big differences

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

	£000
Staff turnover and higher than anticipated vacancy levels	3,120
Net additional income on investments	2,144
Contribution to Transformation Fund Reserve	(540)
Increased bad debt provision	(1,200)
PFI adjustment prior year	864
Additional recovery of Housing Benefits overpayments	462
Other variations	(11)
<b>REDUCTION IN USE OF RESERVES &amp; BALANCES</b>	<b><u>4,839</u></b>

## Summary of Net Expenditure

The following table provides a high level summary of our net expenditure.

Original Budget £000's		Revised Budget £000's	Actual 2007/08 £000's	Variance 2007/08 £000's
<b>181,041</b>	<b>Net Expenditure on Services</b>	<b>182,591</b>	<b>179,058</b>	<b>(3,533)</b>
498	Levies & Contributions	498	483	(15)
(15,107)	Capital Asset Management	(15,358)	(17,725)	(2,367)
24	Other Expenditure & Income	515	1,591	1,076
<b>166,456</b>	<b>Net General Fund Spending</b>	<b>168,246</b>	<b>163,407</b>	<b>(4,839)</b>
(1,715)	(Draw From) / Contribution to Balances	(3,505)	1,334	4,839
<b>164,741</b>	<b>Budget requirement</b>	<b>164,741</b>	<b>164,741</b>	<b>0</b>

# EXPLANATORY FOREWORD

## Capital Summary

Our capital account shows the income and expenditure transactions we make when we:

- buy or sell land, property or other assets
- build new property
- improve our properties or other assets
- provide grants or loans to others for the above type of activity

## Comparing actual spending to budget

The budget for the year was to spend £68.6m on capital projects. Our final capital spend for the year was £11.5m less than the budget at £57.1m.

The table below summarises the capital expenditure for the year.

	Budget £000	Actual £000	Variance £000
Children's Services	14,526	10,684	3,842
Planning & Transportation	12,262	11,028	1,234
Environment & Sustainability	431	349	82
Health, Adult Social Care & Communities	2,667	2,258	409
Homes and Housing	5,376	5,073	303
Leader's Portfolio	1,861	1,260	601
Lesiure & Neighbourhoods	3,045	2,205	840
Finance & Resources	3,343	1,847	1,496
<b>Total General Fund</b>	<b>43,511</b>	<b>34,704</b>	<b>8,807</b>
HRA	25,092	22,393	2,699
<b>Total</b>	<b>68,603</b>	<b>57,097</b>	<b>11,506</b>

## Explaining the big differences

The final spend for the year was £11.5m lower than the budget mainly due to slippage on schemes which will now be spent in 2008/09. Some of the major slippage was on the following schemes:

- Children's Centres £981k
- Primary School Rebuilds £201k
- Schools Improvements and Modernisation £1,256k
- Special Educational Needs Review £322k
- Northern Above Bar Site Acquisition £516k
- Highways Improvements £1,349k
- Southampton New Arts Centre £279k
- Tudor House Museum £322k
- Civic Buildings Capital Repairs £678k
- Decent Homes £1,266k
- Decent Neighbourhoods £1,354k

# EXPLANATORY FOREWORD

## Where the money came from

The table below shows how we paid for our capital spending:

	£000
Supported Borrowing	7,102
Unsupported Borrowing	5,597
Capital Receipts	7,989
Capital Grants	19,460
Contributions	1,896
Direct Revenue Financing	2,820
Major Repairs Allowance	12,233
<b>Total</b>	<b>57,097</b>

## Reserves and Balances Summary

Sound financial management and a strong track record of striking the right balance between spending and the need to maintain a core level of resources to support the revenue account means that our finances are in a healthy state.

We maintain a number of earmarked reserves. These are special reserves we keep for specific types of expenditure.

We also maintain a general reserve to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure. The final balance at 31 March 2008 was £12.3M.

Our revenue working balance provides us with day-to-day cash flow cover for our revenue account because inevitably there is a mismatch between the money being paid out and the money coming in. We added £1.3M to working balances in the year.

## ACCOUNTING ISSUES AND DEVELOPMENTS

The 2007 SORP has introduced a number of changes to local authorities' financial statements. The key changes include:

- Implementing the financial instruments provisions. This includes adoption of FRS25, FRS26 and FRS29. The objectives of the financial instruments provisions are to present investments and borrowings on the Balance Sheet at their true cost or value to the authority and to charge the Income and Expenditure Account with the real underlying costs/benefits arising from holding an instrument in any year. However, there are associated statutory provisions in order to minimise any impact on the Council Tax. The changes involve the creation of two new reserves in the Balance Sheet:
  - Financial Instruments Adjustments Account – to manage the imbalance between accounting rules and statutory provisions for charging amounts to the General Fund Balance
  - Available for Sale Reserve – to manage those investments required to be carried at fair value

## EXPLANATORY FOREWORD

- Substantial increase in disclosures required in notes relating to financial instruments:
  - Fair values for all financial instruments
  - Qualitative and quantitative analysis of risks to which the authority is exposed and how it manages them
- Developments in Capital Accounting. These have been introduced to continue the convergence of local authority accounting towards UK GAAP compliance. The significant changes are:
  - Implementation of the Revaluation Reserve. Revaluation Reserve accounting has been introduced from 2007/08. The Reserve is created with a zero balance from 1 April 2007.
  - Recording and maintaining the depreciated historic cost and the current value for individual assets.

# ACCOUNTING POLICIES

## 1. General

The Statement of Accounts summarises the council's transactions for the 2007/08 financial year and its position at the year-end of 31st March 2008. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A statement of Recommended Practice 2006, Best Value Accounting Code of Practice* and FRS18 Accounting Policies, which is based on four particular accounting concepts; 'Going Concern'; 'Accruals'; 'Consistency'; and 'Prudence'. It also has regard for primary legislative requirements.

## 2. Accrual Accounting

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

- Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowing and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment. Accrued interest is now shown as part of the carrying amount of the loan rather than as a debtor or creditor.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure items are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

## 3. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year. The reserve is then appropriated back to the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Reserves include earmarked balances which represent sums set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and some may only be used for specific statutory purposes. The Revaluation Reserve, Useable Capital Receipts Reserve and the Capital Adjustment Account are examples of such.

Transactions for 2007/08 can be seen within the Statement of Reserves **on pages 41 to 43**.

## 4. Provisions

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.



# ACCOUNTING POLICIES

Provisions are explained in more detail on *page 41*.

## 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, where there is reasonable assurance that the monies will be received and the expenditure for which the grant has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited directly to the Income and Expenditure Account below Net Operating Expenditure.

## 6. Retirement Benefits

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

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

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

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

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

- Assets and Liabilities of the fund will not be split between SCC and Capita – so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both SCC employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both SCC employees and employees transferred to Capita
- The Pension Interest Costs & Expected Return on Assets in the Income & Expenditure Account will be reflective of SCC's share – including the Capita element
- The contract 'pass through payment' to Capita to fund the Capita employer contributions will be reversed out of SCC's accounts and will then be a reconciling item in the Statement of Movement on the General Fund Balance (in the section Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund for the Year)

## ACCOUNTING POLICIES

- The SCC actual pension fund contributions for 2007/08 will be excluded from SCC's accounts, and will be a reconciling item in the Statement of Movement on the General Fund Balance (in the section Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund for the Year)
- The accounts will therefore reflect the full FRS17 position of the Authority including the Capita element.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the SORP.
- The assets of the Hampshire County Council pension fund attributable to the council are included in the balance sheet at fair value:
  - quoted securities – mid-market value
  - unquoted securities – professional estimate
  - unitised securities – average of the bid and offer rates
  - property – market value

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

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
2. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
3. Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account.
4. Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
5. Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
6. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
7. Contributions paid to Hampshire County Council – cash paid as employer's contributions to the pension fund.

# ACCOUNTING POLICIES

Statutory provisions limit the council to raising tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year- end.

As a result of this the overall amount to be met from government grants and local taxation has remained unchanged, but the costs for individual services are £6,290k higher (£5,131k in 2006/07) after the replacement of employer's contribution by current service costs, and Net Operating Expenditure is £12,330k higher (£10,390k higher in 2006/07) than it would otherwise have been. In addition the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £218,130k in 2006/07 and by £164,310k in 2007/08.

For further information please see **pages 44 to 47**.

## Discretionary Benefits

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

## 7. VAT

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

## 8. Overheads and Support Services

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 which reflect the benefit from the supply or service in accordance with the principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The exceptions to this are :

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Service.

## 9. 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 entity through custody or legal right". The types of assets normally included within this definition are purchased software. Intangible assets are amortized to service revenue accounts (from the year following acquisition) over their economic lives. These assets are initially recognised in the balance sheet at actual costs incurred

## 10. Tangible Fixed Assets

Where the Council benefits from an asset for more than one financial year, all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis and

# ACCOUNTING POLICIES

has been recognised in the value of fixed assets in the balance sheet. By definition, this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

## Valuation

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

**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 Depreciated 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 are initially held in the balance sheet at actual costs incurred and are amortized to service revenue accounts (from the year following acquisition) over their economic lives.

**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 at Open Market Value. For investment properties the asset value is determined by capitalising the rents passing under existing leases at a market rate of interest which reflects the security of the income flow and the potential for increasing it.

**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 £10,000 do not attract depreciation charges.

**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.

**Surplus Assets, held for Disposal** - These are assets that have been marketed for sale, and agreement to buy has been reached.

Assets included in the balance sheet at current values are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

## Revaluation Reserve

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

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Upon the disposal of fixed assets, any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Revaluation Gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their

# ACCOUNTING POLICIES

historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Where an asset has major components with different estimated useful lives, these are depreciated separately. Depreciation is calculated on the following bases:

**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** - straight-line basis over the remaining years of the property as estimated by the Valuer.

**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.

## Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reduction in value. There are now three types of impairment:

- Clear consumption of economic benefits – charges to the Income and Expenditure Account
- No clear consumption and sufficient revaluation gains – charged to the Revaluation Reserve
- No clear consumption but insufficient revaluation gains – excess is charged to the Income and Expenditure Account.

## 11. Charges to Revenue

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses due to a clear consumption of economic benefits
- Impairment losses which are not due to a clear consumption of economic benefits, but where there is insufficient revaluation gain held for the specific asset in the Revaluation Reserve
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

## 12. Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts

## ACCOUNTING POLICIES

from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve, and can only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movements on the General Fund Balance.

The summarised movements of capital receipts are on **page 42**.

### 13. Leases

#### a) Operating Leases

Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease. In addition operating lease rentals payable are accounted for net of benefits received or receivable.

#### b) Finance Leases

Finance leases are leases where substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property, recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset and the liability being written down as the rent becomes payable, and
- A finance charge (debited to Net Operating Expenditure in the Income & Expenditure Account as rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council has no finance leases in primary rental. All amounts paid are treated as interest, since the principal value of the asset is deemed to have been fully repaid during the primary period.

### 14. Repurchase of Borrowing – Loan Premiums and Discounts

Gains and losses on the repurchase or early settlement of borrowing are debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue in a straight-line basis over the term of the replacement loans.

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

# ACCOUNTING POLICIES

## 15. Loans and Investments

The Council's borrowing is split between Long Term for loans with more than one year to maturity and Short Term for loans with less than one year to maturity. 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. The carrying value of these include accrued interest.

## 16. Soft Loans

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

Southampton City Council grants the following types of soft loans:

- Car and Cycle Loans the majority of which are issued at the prevailing base rate, the balance of these loans amounted to £87k at the 31 March 2008.
- Season Ticket Loans amounting to £230k
- Private Sector Home Improvement Loans. These are granted for private sector home owners to make improvements to their properties. This is treated as capital expenditure and written off to revenue as a deferred charge. The loans are interest free and repayable when the property is sold. At 31 March 2008 the value of loans outstanding amounted to £1.5 million.

## 17. Deferred Charges

Deferred charges represent capital expenditure that does not result in an asset, such as improvement grants. Expenditure of this nature, where the authority does not gain any economic benefit, is written off to the Revenue Account in the year it occurs, but does not affect the charge to Council Tax as an offsetting appropriation is made from the Capital Adjustment Account.

## 18. Government Grants and Contributions (Capital)

Government grants and contributions relating to fixed assets are credited to a government grants deferred account and released to the service revenue account in line with the depreciation of the asset. Where a grant or contribution cannot be identified to a particular asset which will be depreciated, the grant or contribution is credited to the Income and Expenditure Account. The credit is then reversed out to the Capital Adjustment Account in the Statement of Movement on the General Fund Balance.

## 19. 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 2007/08 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 has been eliminated when the accounts are consolidated.



# ACCOUNTING POLICIES

## 20. 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 New Deal for Communities programme that has been awarded to the City. A Partnership Board of local residents and agencies manages the programme.

The total grant value of this programme amounts to approximately £49 Million, (excluding contributions from Partner Organisations), and is helping to significantly improve the quality-of-life for the residents in the target area of 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.

## 21. Private Finance Initiatives (PFI) and Similar Contracts

Private Finance Initiatives (PFI) and similar contracts involving Private Finance Transactions (PFT) are accounted for in accordance with the provisions of Application Note F to FRS 5, and also by reference to guidance published by CIPFA. This requires the Council to consider whether it has an asset of any of the properties used or created for the purpose of the PFT. It is considered that the Council does not have an asset of any of the PFT properties and consequently there are no items to be recognised in the Council's balance sheet.

In accordance with relevant guidance, payments to private sector partners under PFT arrangements are shown in "Net Cost of Services" in the Income and Expenditure Account as incurred.

Those assets that have been contributed to such contracts by the authority are accounted for as a deferred consideration, which is charged to the revenue account over the life of the contract. Where assets automatically transfer back to the Council at the end of the contract, any residual value of the assets is accumulated over the life of the contract as a deferred asset.

The Council is currently involved with two such contracts – PFI schools and Northlands Nursing Home.

Details of undischarged obligations as at 31st March 2008 are detailed on **page 25**.

### ***PFI Schools***

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

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

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

### ***Northlands Nursing Home***



## ACCOUNTING POLICIES

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

BUPA manage both the property and service provision. The Council is not involved in direct service management or provide any staff. The Council has a block contract for 25 years (from 5<sup>th</sup> July 2005 to 5<sup>th</sup> July 2030) to purchase 72 of the 101 beds at the Nursing Home annually. Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

The unitary charge includes both the cost of building and maintaining the premises as well as ongoing costs in providing care to the residents. The nursing home was opened in July 2005.

### 22. Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a 10 year strategic services partnership contract with Capita. The contract, which involves the TUPE transfer of approximately 650 employees to Capita, will deliver a wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

As part of the contract the majority of the Council's IT assets transferred in ownership to Capita. A reasonable estimate of the fair value of the transferred assets is deemed to be the net book value (NBV) of £3.2 million. The transferred assets have been written out of the Balance Sheet.

The contract charges from Capita take account of the fact that we have donated the assets to the contract, i.e. the contract charges would have been higher if we had not donated the assets or if we had charged an amount for them.

A balance for Deferred Consideration (within Long Term Debtors) has been established with the NBV of the assets. The deferred consideration is then written down to zero over the 10 year life of the contract with the debit entry being to the Income and Expenditure Account. This is then reversed out through the Statement of Movement on General Fund Balance.

As the authority has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the 10 year contract by a reduction in the contract payments, the notional interest related to the value of the assets has been posted to the Income and Expenditure Account. This has also been reversed out through the Statement of Movement on General Fund Balance.

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

### 23. Group Accounts and Financial Relationships with Companies

According to the SORP's classification of group accounts relationships with companies, the Council has a 'simple investment' relationship with two companies – Southampton Enterprise Centre Ltd (SECL) and Solent Sustainable Energy Ltd (SSEL). The Council has no financial investment in either company although the Council is entitled to a share of any profits either company may make. The Council has less than 20% representation in each company and does not exercise dominant influence.

The Council's share of SECL's profit in 2007/08 was £38,351. At 31 March 2008 SECL had net assets of £100. SECL's accounts are subject to audit.

SSEL did not make any profits for the year ending 31 March 2008.

# ACCOUNTING POLICIES

There is no requirement for the Council to prepare group accounts on the basis of these relationships. The Council will continue to monitor the requirement of group accounts in the light of its relationship with all third party organisations.

## 24. Trust Funds

The Council is sole trustee of several trust funds. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of the Trust Funds can be found on **page 66 to 70**.

## 25. Redemption of debt

In accordance with the requirements of the Local Government Act 2003, the authority is required to set aside a minimum revenue provision (MRP) for repayment of debt. This is based on the Capital Financing Requirement (as defined by the Act) at the end of the preceding financial year. The MRP is charged to revenue by an appropriate increase or decrease in the depreciation charge. This adjustment is made by way of an appropriation to or from the Capital Adjustment Account.

## 26. Interest Charges

Interest on loans is charged to the Income and Expenditure account based on the amount due and payable in the financial year.

## 27. Exceptional Items, Extraordinary Items & Prior Year Adjustments

Any material exceptional or extraordinary items are included within the cost of the relevant individual service or separately identified on the face of the revenue account. Details of any such items are given in the explanatory notes.

Material prior year adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figure in the financial statements and notes, along with the cumulative effect on reserves.

Any effect of material prior period adjustments is disclosed separately as a note to the accounts. Where this is not practicable, the fact that this is so, and the reasons for it have been disclosed.

## 28. Post Balance Sheet Events

Any material post balance sheet events which provide additional evidence relating to conditions existing at the balance sheet date, or indicates that application of the going concern concept is not appropriate have been included in the accounts. Any material post balance sheet events, which concern conditions that did not exist at the balance sheet date have been disclosed as a separate note to the accounts.

Events after the balance sheet date are included in the accounts up to the date when the Statement of Accounts is authorised for issue. For Southampton City Council this date has been determined as the 26<sup>th</sup> June 2008.

# RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## 1. The Council's Responsibilities

The Council is required to:

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

## 2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Executive Director of Resources. The CFO 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 2008.

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).

The CFO has also responsibilities for:

- Keeping proper accounting records, which are up to date.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

## 3. Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of Southampton City Council at 31st March 2008 and its income and expenditure for the year ended 31st March 2008.

Signed C Williamson  
Executive Director of Resources and  
Chief Financial Officer

Date 26th June 2008

## 4. Approval of the Accounts

I certify that the Statement of accounts has been approved by a resolution of the Standards and Governance Committee in accordance with the Accounts and Audit Regulations 2003 and is authorised for issue.

Signed

Date 26th June 2008

Chair, Standards and Governance Committee.

## INCOME AND EXPENDITURE ACCOUNT

This Account summarises the resources that have been applied and generated in providing services and managing the Council during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.

<u>2006/07</u>		<u>Notes</u>	<u>2007/08</u>		<u>Net</u> <u>Expenditure</u> <u>£000's</u>
<u>Net</u> <u>Expenditure</u> <u>£000's</u>			<u>Gross</u> <u>Expenditure</u> <u>£000's</u>	<u>Income</u> <u>£000's</u>	
2,453	Central Services to the Public		95,839	(90,619)	5,220
45,042	Cultural, Environmental and Planning Services		90,818	(37,874)	52,944
23,737	Education Services		211,775	(163,358)	48,417
12,022	Highways, Roads and Transport Services		36,902	(25,934)	10,968
	Local Authority Housing (HRA)		41,245	(55,463)	(14,218)
(8,799)	Other Housing Services		36,926	(33,234)	3,692
72,428	Social Services		77,509	(21,995)	55,514
3,389	Corporate and Democratic Core		4,159	(692)	3,467
4,045	Non Distributable Costs		4,567	(33)	4,534
<b>154,317</b>	<b>Net Cost of Services</b>		<b>599,740</b>	<b>(429,202)</b>	<b>170,538</b>
0	Loss / (Gain) on the disposal of Fixed Assets				0
501	Contributions to Other Local Authorities	47			483
8,825	Interest payable and similar charges	23			8,792
	Contributions of Housing Capital Receipts to Government Pool	37 (c)			4,498
5,315	Investment Losses				0
0	Interest and Investment Income	22			(5,580)
(3,349)	Pensions Interest Costs & Expected Return on Assets	44 (a)			6,040
<b>5,259</b>	<b>Net Operating Expenditure</b>		<b>599,740</b>	<b>(429,202)</b>	<b>184,771</b>
(70,892)	Demand on Collection Fund				(73,893)
(13,778)	General Government Grants				(12,954)
(2,583)	Capital Grants not Relating to Specific Services				(1,550)
(73,605)	Non - Domestic Rates Redistribution				(77,190)
1,944	Transfers to the Collection Fund in respect of Surpluses/Deficit				(704)
<b>11,954</b>	<b>Deficit / (Surplus) for the Year</b>				<b>18,480</b>

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the useable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2006/07 £000's		2007/08 £000's
11,954	Deficit / (Surplus) for the Year on the Income and Expenditure Account	18,480
(12,201)	Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	(19,813)
(247)	Decrease/(Increase) in General Fund Balance for the Year	(1,333)
(10,676)	General Fund Balance Brought Forward	(10,923)
<b>(10,923)</b>	General Fund Balance Carried Forward	<b>(12,256)</b>
0	Amount of General Fund Balance held by Schools under Local Management schemes	0
(10,923)	Amount of General Fund Balance generally available for new expenditure	(12,256)
<b>(10,923)</b>	<b>Total</b>	<b>(12,256)</b>

The statement below sets out the details of the reconciling transactions (Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year) and shows the movement to and from other earmarked reserves.

# STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2006/07 £000's			2007/08 £000's
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund for the Year</b>	<b>Notes</b>	
(302)	Amortisation of intangible fixed assets	26	(247)
(21,728)	Depreciation and Impairment of fixed assets		(23,167)
1,045	Revenue contribution to Deferred Assets	48	1,045
(32)	Deferred Consideration written down	50	(32)
0	Assets Transferred to CAPITA		(256)
(171)	Transfers to/from Major Repairs Reserve		(199)
1,296	Government Grants Deferred amortisation	57	1,464
(4,708)	Write downs of deferred charges to be financed from capital resources	17	(6,266)
1,712	Capital Receipts not matched by Disposal of Assets		529
15,415	Capital Grants & Contributions not transferred to Government Grants Deferred		11,002
0	Net loss on sale of fixed assets		0
0	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on early repayment of debt		
(30,610)	Net charges made for retirement benefits in accordance with FRS 17	44 (a)	(33,541)
<b>(38,083)</b>			<b>(49,668)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund for the Year</b>		
4,736	Minimum revenue provision for capital financing	21	4,956
1,324	Capital expenditure charged in-year to the General Fund Balance		2,820
(5,315)	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	37 (c)	(4,498)
20,220	Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	44 (a)	21,210
<b>20,965</b>			<b>24,488</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
27	Housing Revenue Account balance		1,514
144	Voluntary revenue provision for capital financing		204
4,746	Net transfer to or from earmarked reserves		3,647
<b>4,917</b>			<b>5,365</b>
<b>(12,201)</b>	<b>Transfers to or from the General Fund Balance for the Year</b>		<b>(19,815)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and remeasurement of the net liability to cover the cost of retirement benefits.

<b>2006/07</b>		<b>2007/08</b>
<b>£000's</b>		<b>£000's</b>
11,954	Deficit/(Surplus) for the year on the Income and Expenditure Account	18,480
(80,676)	Surplus arising on revaluation on fixed assets	(44,429)
27,304	Capital Spend in year not resulting in a change to Asset value	0
(2,160)	Attributable Movement on Collection Fund Balance	346
0	(Surplus)/deficit arising on revaluation of available-for-sale financial assets	0
(2,260)	Actuarial (gains) / losses on pension fund assets and liabilities	(66,150)
<b><u>(45,838)</u></b>	<b>Total recognised gains for the year</b>	<b><u>(91,753)</u></b>

In 2007/08 all expenditure which met the statutory definition of capital has been allocated to fixed assets and therefore there is a zero balance for 'Capital spend in year not resulting in change to Asset value.' See **note 17** on **page 30** for further details.

# 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 2008.

31st March 2007		Notes	31st March 2008		
£000's			£000's	£000's	£000's
995	<b>Fixed Assets</b>			645	
	<i>Intangible Assets</i>	26			
	<i>Tangible Fixed Assets</i>				
	<i>Operational Assets</i>				
787,466	Council Dwellings		799,740		
586,433	Other Land and Buildings		595,265		
5,871	Vehicles, plant, furniture, and equipment		5,697		
76,583	Infrastructure assets		84,868		
				1,485,570	
	<i>Non-Operational Assets</i>				
138,190	Investment Properties		152,706		
13,274	Assets under construction		8,736		
387	Surplus assets, held for disposal		289		
				161,731	
<b>1,609,199</b>	<b>Total Fixed Assets</b>	17			1,647,946
36	Long Term Investments				1,081
2,357	Long Term Debtors	49			7,105
<b>1,611,592</b>	<b>Total Long - Term Assets</b>				<b>1,656,132</b>
	<b>Current Assets</b>				
1,654	Stocks, Stores and Work in Progress	51		1,281	
49,525	Debtors	52	52,942		
(11,402)	Less provision for bad and doubtful debts		(12,637)	40,305	
40,959	Short Term Investments	53		75,313	
243	Cash in Hand and Bank	54		222	
					117,121
<b>1,692,571</b>	<b>Total Assets</b>				<b>1,773,253</b>
	<b>Current Liabilities</b>				
(13,451)	Short Term Borrowing	30		(6,513)	
(49,557)	Creditors	52		(70,194)	
(3,261)	Bank Overdraft	54		(7,682)	
					(84,389)
<b>1,626,302</b>	<b>Total Assets less Current Liabilities</b>				<b>1,688,864</b>
	<b>Long Term Liabilities</b>				
(126,944)	Long Term Borrowing	30			(137,038)
(7,219)	Provisions	36			(8,046)
(26,773)	Government Grants Deferred	57			(35,662)
(21,688)	Deferred Liabilities	55			(20,820)
(190)	Deferred Capital Balances	56			(136)
(13,393)	Capital Grants & Contributions Unapplied	58			(19,259)
(218,130)	Liability Related to Defined Benefit Pensions Scheme	44(b)			(164,310)
<b>1,211,965</b>	<b>Total Assets less Liabilities</b>	27			<b>1,303,593</b>
	<b>Financed by:</b>				
0	Revaluation Reserve	37			44,429
1,384,862	Capital Adjustment Account	37			1,366,490
0	Available-for-Sale Financial Instruments Reserve	37			20
0	Financial Instrument Adjustment Account				0
(218,130)	Pension Reserve	44(b)			(164,310)
6,267	Usable Capital Receipts Reserves	37			11,665
0	Deferred Capital Receipts				0
25,943	Earmarked Revenue Reserves	37			29,774
	<i>Revenue Balances</i>				
10,922	General Fund	37			12,256
1,594	Housing Revenue Account	37			3,108
507	Collection Fund Balance	37			161
<b>1,211,965</b>	<b>Total Net Worth</b>				<b>1,303,593</b>

Signed Chair of Meeting



# CASH FLOW STATEMENT

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

<u>2006/07</u> £000's	Revenue Activities	£000's	<u>2007/08</u> £000's
	<u>Cash Outflows</u>		
235,339	Cash paid to and on behalf of employees	234,070	
40,931	Housing Benefits paid out	43,428	
79,767	Payments to NNDR Pool	80,086	
3,462	Fire & Rescue Precept	3,651	
7,707	Hampshire Police Authority Precept	8,163	
5,487	Payments to the Capital Receipts Pool	5,218	
<u>131,174</u>	Other Operating Costs (cash payments)	<u>177,497</u>	
<b>503,867</b>	<b>Total Cash Outflows</b>		<b>552,113</b>
	<u>Cash Inflows</u>		
(31,863)	Rents (after Rebates)	(34,220)	
(70,404)	Council Tax Income	(73,686)	
(81,719)	Non-domestic Rate Income - Payers	(84,496)	
(73,605)	Non-domestic Rate Income - Pool	(77,190)	
(13,778)	Revenue Support Grant	(12,954)	
(106,923)	Dedicated Schools Grant	(112,679)	
(77,941)	Housing Benefits	(83,262)	
(995)	HRA Subsidy	(1,545)	
(2,799)	Other Government Grants	(2,718)	
(67,200)	Cash Received for Goods and Services	(44,862)	
<u>(5,171)</u>	Other Revenue Cash Payments/Income	<u>(62,098)</u>	
<b>(532,398)</b>	<b>Total Cash Inflows</b>		<b>(589,710)</b>
<b>(28,531)</b>	<b>Net Cash Inflow from Revenue Activities - Note 45(b)</b>		<b>(37,596)</b>
	<b>Returns on Investments and Servicing of Finance</b>		
	<u>Cash Outflows</u>		
5,984	Interest Paid	6,978	
	<u>Cash Inflows</u>		
<u>(2,588)</u>	Interest Received	<u>(4,941)</u>	
3,396			2,037
	<b>Capital Activities</b>		
	<u>Cash Outflows</u>		
57,445	Expenditure on Fixed Assets	57,354	
0	Expenditure on Long term Investments	998	
		<u>58,352</u>	
	<u>Cash Inflows</u>		
(14,076)	Sale of Fixed Assets	(17,805)	
(16,646)	Capital Grants Received	(25,812)	
<u>(3,764)</u>	Other Capital Cash Receipts	<u>(3,703)</u>	
<u>(34,486)</u>		<u>(47,320)</u>	
<u>22,959</u>			<u>11,032</u>
<b>(2,176)</b>	<b>Net Cash( Inflow)/Outflow before Financing</b>		<b>(24,527)</b>
	<b>Management of Liquid Resources - Note 45(a)</b>		
11,331	Net Increase/(Decrease) in Short-Term Deposits		33,613
	<b>Financing</b>		
	<u>Cash Outflows</u>		
239,518	Repayments of Amounts Borrowed		167,007
	<u>Cash Inflows</u>		
(78,000)	New Long Term Loans Raised	(41,000)	
<u>(171,175)</u>	New Short Term Loans	<u>(130,650)</u>	
<u>(249,175)</u>			<u>(171,650)</u>
<b>(502)</b>	<b>Net (Increase)/Decrease in Cash - Note 45(c)</b>		<b>4,442</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued. There were no material changes during 2007/08 and therefore no separate disclosure is required in respect of the accounts.

## 2. Exceptional/Extraordinary Items and Prior Period Adjustments

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement Of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 10). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £1,154m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£247m credit balance) to form the new Capital Adjustment Account. After an adjustment of £16k to reclassify an account, the Capital Adjustment Account has an opening credit balance of £1,401m. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

## 3. Undischarged Obligations – Private Finance Transactions

**PFI Schools** – During 2007/08, the Council paid a Unitary Charge of £5,486k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	5,590
2 - 5 Years	23,495
6 - 10 Years	32,330
More than 10 Years	109,447
<b>Total</b>	<b>170,862</b>

**PPP Northlands Nursing Home** – During 2007/08, the Council paid £2,085k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	2,085
2 - 5 Years	8,339
6 - 10 Years	10,424
More than 10 Years	25,713
<b>Total</b>	<b>46,561</b>

These private finance contracts are discussed in more detail on **page 15**.

## 4. Trading Activities

- Trading services are disclosed in line with the requirements of the Best Value Accounting Code of Practice (BVACoP) and are mainly activities of a commercial nature that are financed substantially by charges made to recipients of the service. .
- Other trading activities include Trade Refuse that generated profits of £33k for 2007/08, (2006/07, £29k).

## 5. 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 2007/08 was £202k, against a statutory limit of £800k (£3.50 per head of population which for mid point 2006/07 was 228,600). In 2006/07 £202k was also the amount spent.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 6. 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 2007/08 is set out in the table below. This includes the regular publications of City News and Housing Link.

<u>2006/07</u> £000's	<u>2007/08</u> £000's
629 Recruitment Advertising	499
712 Other Advertising	654
1,155 Other Publicity	1,119
<u><u>2,496</u></u>	<u><u>2,272</u></u>

## 7. 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.

<u>Building Regulations Charging Account</u>			
<u>Total Building Control</u> <u>2006/07</u> £000's	<u>Chargeable</u> <u>2007/08</u> £000's	<u>Non Chargeable</u> <u>2007/08</u> £000's	<u>Total Building Control</u> <u>2007/08</u> £000's
<u>Expenditure</u>			
563	373	201	574
0	0	0	0
21	12	7	19
(8)	24	12	36
286	213	616	829
<u>862</u>	<u>622</u>	<u>836</u>	<u>1,458</u>
<u>Income</u>			
586	610	597	1,207
12	0	0	0
<u>598</u>	<u>610</u>	<u>597</u>	<u>1,207</u>
<u><u>(264)</u></u>	<u><u>(12)</u></u>	<u><u>(239)</u></u>	<u><u>(251)</u></u>
<b>Surplus/(Deficit) for Year</b>			

## 8. Agency Arrangements

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

The Council currently has only one material arrangement in place; to provide a rehabilitation service for Southampton City Primary Trust. The total value of the service provided in 2007/08 was £627k (£651k for 2006/07)

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 9. Transport Act 2000

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

## 10. Business Improvement District Scheme

The Council does not currently have any Business Improvement District Scheme in place.

## 11. 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 the charges are set to recover costs.

	2006/07		2007/08	
	<u>Income</u> £000's	<u>Expenditure</u> £000's	<u>Income</u> £000's	<u>Expenditure</u> £000's
Public Bodies				
Other Local Authorities	1,706	1,706	2,092	2,092
Universities and colleges	64	64	66	66
Health Authorities / Trusts	29	29	438	438
Other Public Bodies	327	327	290	290
	<b>2,126</b>	<b>2,126</b>	<b>2,886</b>	<b>2,886</b>

## 12. Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. With effect from 1 April 2004 the Council is required to maintain memorandum accounts in respect of three pooled fund accounts as detailed below:

### *Community Equipment*

Partnership between Southampton City Council and Southampton City Primary Care Trust to provide community equipment to both children and adults in their own homes and residential care plus provision to nursing homes through the purchase of Health Standard and Social Care Standard equipment.

2006/07 £000's	Community Equipment	2007/08 £000's
	<b>Funding</b>	
0	Brought Forward	0
(43)	Southampton City Council	0
0	Southampton City Primary Care Trust	0
<b>(43)</b>		<b>0</b>
36	<b>Expenditure</b>	0
7	<b>Balance to Southampton City Council</b>	0
<b>0</b>	<b>Carried Forward</b>	<b>0</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## ***Learning Disability Development Fund***

Partnership between Southampton City Council and Southampton City Primary Care Trust to support the implementation of the “Valuing People: A New Strategy for Learning Disability for the 21<sup>st</sup> Century”.

2006/07 £000's	Learning Disability Development Fund	2007/08 £000's
	<b>Funding</b>	
(10)	Brought Forward	(28)
0	Southampton City Council	0
(196)	Southampton City Primary Care Trust	0
<u>(206)</u>		<u>(28)</u>
178	<b>Expenditure</b>	0
<u>(28)</u>	Carried Forward	<u>(28)</u>

## ***Drug Services***

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

2006/07 £000's	Drug Services	2007/08 £000's
	<b>Funding</b>	
(321)	Brought Forward	(173)
(672)	Southampton City Council	(600)
(1,758)	Southampton City Primary Care Trust	(2,195)
<u>(2,751)</u>		<u>(2,968)</u>
2,578	<b>Expenditure</b>	2,696
<u>(173)</u>	Carried Forward	<u>(272)</u>

## **13. Members Allowances**

The total of members allowances paid in 2007/08 was £734k, (£644k in 2006/07).

## **14. 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 below.

# NOTES TO THE CORE FINANCIAL STATEMENTS

Band £	Number of Employees	
	2006/07	2007/08
50,000 - 59,999	94	108
60,000 - 69,999	21	42
70,000 - 79,999	11	20
80,000 - 89,999	7	7
90,000 - 99,999	1	2
100,000 - 109,999	0	2
110,000 - 119,999	3	3
120,000 - 129,999	2	2
130,000 - 139,999	1	0
140,000 - 149,999	0	0
150,000 - 159,999	0	2
	<u>140</u>	<u>188</u>

## 15. 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 **page 44**; Hampshire Police Authority precept of £8,163K and Hampshire Fire & Rescue Services precept of £3,651K shown in the Collection Fund, **page 63**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants; these are set out in the cash flow statement and notes, **pages 24 & 47 to 48**.

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 2007/08.

## 16. Disclosure of Audit Fees

The Council's appointed auditors are the Audit Commission. The Authority incurred the following fees relating to external audit and inspection. The fees for other services related to specialist advice for work e.g. for 2006/07 on Management of Housing Benefits and for 2007/08 included work on National Fraud initiatives.

<u>2006/07</u> £000's	<u>2007/08</u> £000's
279 Statutory Audit & Inspection	419
78 Certification of Grant Claims and Returns	70
9 Other Services	1
<u>366</u>	<u>490</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 17. Fixed Assets

Fixed assets are shown at a current valuation of £1,647 million, an increase of £39 million. The basis of valuation is explained in more detail on **page 11**. This valuation does not include certain Church and Voluntary Aided schools. These schools have an estimated value of £32 million. The values are shown as at 31st March 2008.

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. In previous years a large element of the Council's capital expenditure was treated as not enhancing the value of assets and was written off to the Fixed Asset Restatement Account. The 2007 SORP encourages local authorities to treat all capital expenditure as enhancing the value of assets. Therefore for 2007/08 all capital expenditure has been allocated to individual assets unless there is evidence that the expenditure does not comply with the proper definitions of capital. This may be viewed as a change in accounting policy. However, it is not possible to restate the relevant figures for 2006/07 on this basis. New processes and procedures have been put in place in 2007/08 to capture which individual assets capital expenditure relates to. It is not possible to retrospectively obtain that information for the 2006/07 expenditure.

As a result of revaluations undertaken by the valuation department of the Council there is an increase in asset values of £44 million, which reflects the improvement in the property market. See **pages 8 & 9** for details of methods of depreciation used.

<b><u>Movement on Operational Fixed Assets During 2007/08</u></b>					
	<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Infrastructure</u>	
	£000	£000	£000	£000	£000
<b>Certified Valuation at 31 March 2007</b>	<b>787,466</b>	<b>586,421</b>	<b>5,871</b>	<b>76,583</b>	<b>1,456,341</b>
Accumulated depreciation and impairment	0	0	0	0	0
<b>Net Book Value of Fixed Assets at 31st March 2007</b>	<b>787,466</b>	<b>586,421</b>	<b>5,871</b>	<b>76,583</b>	<b>1,456,341</b>
<b>Movement in Year</b>					
Transfers between Categories		5,364	52		5,416
Transferred to CAPITA			(2,532)		(2,532)
Additions	22,376	12,096	3,814	10,208	48,494
Disposals	(6,121)	(3,041)			(9,162)
Revaluations	8,252	13,640			21,892
Depreciation	(12,233)	(16,110)	(1,508)	(1,923)	(31,774)
Impairments		(3,105)			(3,105)
<b>Net Book Value of Fixed Assets at 31st March 2008</b>	<b>799,740</b>	<b>595,265</b>	<b>5,697</b>	<b>84,868</b>	<b>1,485,570</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movements on Non - Operational Fixed Assets During 2007/08</b>				
	<u>Investment</u>	<u>Under Construction</u>	<u>Surplus held for Disposal</u>	<u>Total</u>
	£000	£000	£000	£000
<b>Certified Valuation at 31 March 2007</b>	<b>138,203</b>	<b>13,274</b>	<b>386</b>	<b>151,863</b>
Accumulated depreciation and impairment	0	0	0	0
<b>Net Book Value of Fixed Assets at 31st March 2007</b>	<b>138,203</b>	<b>13,274</b>	<b>386</b>	<b>151,863</b>
Transfers	0	(5,416)	0	(5,416)
Additions	847	878	0	1,725
Disposals	(7,915)	0	(343)	(8,258)
Revaluations	22,292	0	245	22,537
Depreciation	0	0	0	0
Impairments	(721)	0	0	(721)
<b>Net Book Value of Fixed Assets at 31st March 2008</b>	<b>152,706</b>	<b>8,736</b>	<b>288</b>	<b>161,730</b>

Capital expenditure and how it was financed is analysed below:

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b>2006/07 £'000s</b>	<b>2007/08 £'000s</b>
<b>Opening Capital Financing Requirement</b>	190,226	200,453
<b>Adjustment for</b>		
Deferred Assets	1,045	1,045
Deferred Considerations	(33)	(289)
<b>Capital Investment</b>		
Intangible assets	313	612
Operational assets	41,040	48,494
Non - operational assets	8,690	1,725
Deferred Charges	4,708	6,266
<b>Sources of Finance</b>		
Capital Receipts	5,131	4,498
Government grants & other contributions	(33,390)	(33,589)
Revenue provision (inc MRP & commutation adj)	(17,277)	(25,089)
<b>Closing Capital Financing Requirement</b>	<b>200,453</b>	<b>204,126</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)	9,693	7,102
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,212	5,597
Use of Internal Resources	(4,678)	(9,026)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>10,227</b>	<b>3,673</b>



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 18. Commitments Under Capital Contracts

The Council has a number of major contracts that run beyond 31st March 2008, totalling £28.2 million, these are summarised below.

Significant Commitments for Capital Expenditure After 31 March 2008	
	£000's
Decent Homes/Decent Homes Plus	13,298
Housing Associations	3,234
Decent Neighbourhoods	3,201
Private Sector Home Improvement Loans	1,426
Tudor House Museum	1,248
Modernisation of Southampton Day Services	1,047
Learning Futures	564
Disabled Facilities Grants	552
Other	3,607
<b>Total</b>	<b>28,177</b>

## 19. Assets Held

A summary of the major assets owned by the Council is as follows:

<u>Estimate of Major Fixed Assets of the Council</u>		
	31.03.07	31.03.08
	No,s	No,s
Council Dwellings	17,312	17,229
Shops	237	232
Other Commercial Properties	178	175
Civic Centre	1	1
Depots	2	2
Central and Area Offices	4	4
Early Years	0	1
Infant/Primary schools	45	45
Junior Schools	18	16
Secondary Schools	14	14
Special schools	13	5
Activity Centres and Youth Clubs	12	12
Children's Services - residential centres	3	2
Social Services-residential centres	7	7
Social Services-day centres	8	8
Off Street Car Parks	54	54
Libraries	8	8
Leisure Centres and Pools	6	6
Museums, Galleries and Related	6	6
Roads-Length (km)	579	579
Open Spaces and Recreation Areas (hectares)	977	977
Markets	1	1
Cemeteries	6	6
Crematorium	1	1
Toilets	28	28
Ski Slope	1	1
Golf Course	1	1
Local Housing Offices/Advice Centres	13	13
Laboratory	1	1

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 20. Leasing

### a) Finance Leases

The Council holds 4 finance leases relating to vehicles and equipment. These are all in their secondary period, for which a peppercorn rent is paid, amounting to £208 during 2007/08 and £208 for 2008/09 and thereafter until assets are disposed. No new finance leases were entered into during the year. As these assets are expected to be disposed of within the next 3 years, total outstanding obligations relating to finance leases amount to less than £700.

### b) Operating Leases

During 2007/08, £1,848k was paid out in respect of operating lease rentals for vehicles and equipment. As at 31st March 2008 the Council has a commitment to meet leasing rentals on these of £2,630k until 2013/14.

The Council also has commitments on the following buildings amounting to £3,676k, detailed as follows; Castle Way £617k; Southbrook Rise £1,561k; Frobisher House £1,313k; Cumberland Place £20k; Cumberland House £165k.

The table below details the financial commitment over the various years.

Operating Leases			
	Vehicles & Equipment £'000's	Land & Buildings £'000's	Total £'000's
2008/09	1,331	1,456	2,787
2009/10 - 2012/13	1,295	2,157	3,452
2013/14 - 2020/21	4	63	67
	<u>2,630</u>	<u>3,676</u>	<u>6,306</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.

## 21. Minimum Revenue Provision (MRP)

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. In addition voluntary repayments are being made in respect of unsupported borrowing. The table below details the amounts set aside in the year.

2006/07 £000's		2007/08 £000's
4,103	Statutory amount charged to Revenue	4,241
937	Payments to HCC in respect of transferred debt	867
(304)	Credit to revenue (commutation adjustment)	(152)
<u>4,736</u>		<u>4,956</u>
144	Voluntary repayments	204
<u>4,880</u>		<u>5,160</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 22. Interest and Investment Income

The table below details the amounts for the year.

<u>2006/07</u> £000's	<u>2007/08</u> £000's
2,545 Temporary Investments	4,374
499 HRA Cash Balances	845
305 Other	361
<u>3,349</u>	<u>5,580</u>

## 23. Interest Payable and Similar Charges

The table below details the amounts for the year.

<u>2006/07</u> £000's	<u>2007/08</u> £000's
6,302 Interest on External Loans	5,845
1,170 Payments to HCC in respect of Transferred Debt	1,198
1,097 Interest on Funds held	1,697
256 Other	0
<u>8,825</u>	<u>8,740</u>

## 24. Assets Recognised under PFI Arrangement

There are three schools that were rebuilt under Private Finance Initiative arrangements. Under the terms of the arrangements no assets are held by the Council. The Council regains ownership of the assets at the end of the contract in 2031. The total Depreciated Replacement Cost of the three schools is £54 million.

The Council also has a private finance arrangement with BUPA for Northlands Nursing Home. This asset is also treated as 'off balance sheet,' with the Council gaining ownership of the asset at the end of the 50 year lease of the land in 2055. The deferred value of the site is £334k.

## 25. Assets – Valuation Information

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by the Authority's Valuers, under the guidance of Paul Mansbridge (FRICS). The basis for valuation is set out in the statement of accounting policies.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Valuations of Tangible Fixed Assets carried at Current Value

	<u>Operational Assets</u>				<u>Total</u>
	<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Infrastructure</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	
<b>Valued at Historic Cost</b>		272	5,697	84,868	<b>90,837</b>
<b>Valued at Current Value in:</b>					
2007/08	799,740	58,960			<b>858,700</b>
2006/07		12,437			<b>12,437</b>
2005/06		501,694			<b>501,694</b>
2004/05		9,634			<b>9,634</b>
2003/04		12,268			<b>12,268</b>
<b>Net Book Value of Fixed Assets at 31 March 2007</b>	<b>799,740</b>	<b>595,265</b>	<b>5,697</b>	<b>84,868</b>	<b>1,485,570</b>

### Valuations of Tangible Fixed Assets carried at Current Value

	<u>Non - Operational Assets</u>			<u>Total</u>
	<u>Investment</u>	<u>Under Construction</u>	<u>Surplus held for Disposal</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	
<b>Valued at Historic Cost</b>		8,736		<b>8,736</b>
<b>Valued at Current Value in:</b>				
2007/08	34,451			<b>34,451</b>
2006/07	50,221			<b>50,221</b>
2005/06	33,390		255	<b>33,645</b>
2004/05	34,541			<b>34,541</b>
2003/04	103		33	<b>136</b>
<b>Net Book Value of Fixed Assets at 31 March 2007</b>	<b>152,706</b>	<b>8,736</b>	<b>288</b>	<b>161,730</b>

## 26. 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 entity through custody or legal right”. The types of assets normally included within this definition are purchased software.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

Purchased Software	
	£000's
Original Cost	1,340
Amortisation to 1st April 2007	(345)
<b>Balance at 1st April 2007</b>	<b>995</b>
Expenditure in Year	612
Written off to Revenue in Year	(247)
Transferred to Capita	(715)
<b>Balance at 31st March 2008</b>	<b>645</b>

Expenditure on intangible assets in 2007/08 all relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset. Significant items purchased during the year include £116k for the Social Services Care Management System.

### 27. 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 in the table below. General fund assets have mainly increased due to the revaluation of investment properties.

<u>2006/07</u> £000's	<u>2007/08</u> £000's
457,013 General Fund	554,511
754,952 Housing Revenue Account	749,384
<u>1,211,965</u>	<u>1,303,895</u>

### 28. Interest in Companies

The Council has a 'simple investment' relationship with two companies – Southampton Enterprise Centre Ltd (SECL) and Solent Sustainable Energy Ltd (SSEL).

See **Note 23** on **page 16** for further information.

### 29. Capital Instruments

The Council does not have any capital instruments listed or publicly traded on a stock exchange or market.

### 30. Borrowing

#### *Loans Falling due Within One Year*

This is made up of long term loans maturing within the next financial year and loans that are of less than one year that are raised through the Money Market which Local Authorities may borrow temporarily pending the receipt of revenues and in order to finance capital expenditure.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> 31.03.07 £000's		<u>Outstanding</u> 31.03.08 £000's	
<u>Source of Loan</u>			
3,500	Public Works Loan Board	0	
9,951	Other Financial Institutions	6,513	
<b>13,451</b>		<b>6,513</b>	

### Long-Term Borrowing

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

<u>Outstanding</u> 31.03.07 £000's		<u>Outstanding</u> 31.03.08 £000's	
<u>Source of Loan</u>			
113,300	Public Works Loan Board	125,000	
11,967	Other Financial Institutions	11,810	
<b>125,267</b>		<b>136,810</b>	
<u>Analysis of Loans by Maturity</u>			
3,000	Between 1 and 2 years	0	
0	Between 2 and 5 years	0	
0	Between 5 and 10 years	10,000	
122,267	More than 10 years	126,810	
<b>125,267</b>		<b>136,810</b>	

## 31. Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2007 £000	31 March 2008 £000	31 March 2007 £000	31 March 2008 £000
Financial liabilities at amortised cost	148,632	157,859	13,451	6,513
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Total borrowings</b>	<b>148,632</b>	<b>157,859</b>	<b>13,451</b>	<b>6,513</b>
Loans and Receivables	36	36	40,959	75,313
Available-for-sale financial assets	0	1,045	0	0
Unquoted equity investment at cost	0	0	0	0
<b>Total investments</b>	<b>36</b>	<b>1,081</b>	<b>40,959</b>	<b>75,313</b>

## 32. Financial Instruments Gains/Losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

# NOTES TO THE CORE FINANCIAL STATEMENTS

	Financial Liabilities		Financial Assets		Total £000
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000		
Interest expense	(7,043)	0	0	0	
Losses on derecognition	(700)	0	0	0	
Impairment Losses	0	0	0	0	
<b>Interest payable and similar charges</b>	<b>(7,743)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(7,743)</b>
Interest income	0	4,374	36		
Gains on derecognition	730	0	0		
<b>Interest and investment income</b>	<b>730</b>	<b>4,374</b>	<b>36</b>		<b>5,140</b>
Gains on revaluation			20		
Losses on revaluation			0		
Amounts recycled to the I&E					
Account after impairment			0		
<b>Surplus arising on revaluation of financial assets</b>			<b>20</b>		
<b>Net gain / (loss) for the year</b>	<b>(7,013)</b>	<b>4,374</b>	<b>56</b>		

### 33. Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The 2007 SORP requires the Fair Values of these assets and liabilities to be disclosed for comparison purposes. Fair Value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair Values have been calculated as follows:

- PWLB Debt – confirmation of Fair Values from the PWLB. The 2008 figure has been calculated by reference to the 'premature repayment' set of rates in force on 31 March 2008. The 2007 figure has been calculated by reference to the set of rates in force on 30 March 2007.
- Long Term Market Debt – based on premature redemption figures quoted by the banks concerned. Where this information was not available a calculation has been made based on the information provided by other banks for similar loans.
- Eurosterling Bond – quoted Bid price at 31 March published by Bloomberg

Disclosure is not required where the carrying amount of an instrument is not materially different from the fair value. The tables below therefore only include Long Term Borrowing and Long Term Investments as the fair value of the Council's other financial instruments (short term borrowing, short term investments, debtors and creditors) are deemed to approximate to the carrying amount.

The fair values calculated are as follows:

	31 March 2007		31 March 2008	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial liabilities	147,013	149,506	157,859	165,472

The fair value is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the premature repayment rates available for

## NOTES TO THE CORE FINANCIAL STATEMENTS

similar loans at the balance sheet date. The commitment to pay interest above these rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March 2007		31 March 2008	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Loans and receivables	36	36	36	36

### 34. Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team with advice from external Treasury Management advisors, under policies approved by the Council in the annual Treasury Management Strategy. The authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. The Council has a credit risk policy of not placing deposits with banks and financial institutions unless they are rated independently with a minimum score (Fitch Long Term rating) of A. However, since the recent uncertainties in the financial markets associated with the 'credit crunch' the Council has proactively reviewed this policy and increased the minimum criteria to a credit rating of AA-. The Council has set maximum limits on the amounts to be invested with individual banks in relation to their credit rating. Banks with a rating of A or A+ have a limit of £5 million, while those with a rating of AA- or above have a limit of £10 million.

The table below summarises the nominal value of the Council's investment portfolio at the end of each financial year into the relevant credit rating.

Credit Rating	31 March 2007		31 March 2008	
	£000	%	£000	%
A	5,500	14%	2,000	3%
A+	12,100	30%	10,368	14%
AA-	18,100	45%	44,225	59%
AA	1,700	4%	11,900	16%
AA+	1,161	3%	3,132	4%
AAA	1,975	5%	3,525	5%
<b>Total Investments</b>	<b>40,536</b>	<b>100%</b>	<b>75,149</b>	<b>100%</b>

The authority does not expect any losses from non-performance by any of its counterparties in relation to its investments.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Liquidity Risk**

As the Authority has ready access to borrowings from the Public Works Loans Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 25% of loans are due to mature within the next 12 month period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of the Council's borrowing is shown in note 30.

All trade and other payables are due to be paid in less than one year.

### **Market Risk**

#### Interest Rate Risk

The Authority is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments.

The Authority has a number of strategies for managing interest rate risk. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 25% on external debt that can be subject to variable interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposures to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and forecasts during the year. This allows any adverse changes to be accommodated.

However, as all the Council's investments are at fixed rates and all debt is at fixed rates there is no impact on interest payable or receivable on borrowings and investments at 31 March 2008 from any changes in interest rates.

#### Price Risk

The Authority does not invest in equity shares and has no shareholdings in any companies. Therefore, the Authority has no exposure to losses arising from share prices.

#### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## **35. Insurance Provisions**

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 £100k and £20k 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 reserve for 'claims reported but not settled' as at 31st March 2008 amounted to £5,246k with a closing fund balance of £5,723k. With regard to the outstanding reserve figure, the Councils insurers allocate a claim reserve figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding reserve figure however unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The reserve figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

The fund position is fluid as claims are settled and new claims received however the insurance funds are monitored on a monthly basis. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement

## NOTES TO THE CORE FINANCIAL STATEMENTS

process and ultimately the decisions of the Courts. No assumptions have been made in respect of future events and no reimbursement is expected.

### 36. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The previous years Provision balance has been restated as there were some balances that no longer meet the definition of a Provision. The Provisions as shown in the balance sheet are analysed in the following table:

	£000's			Balance at 31st March 2008
	Balance at 1st April 2007	Receipts in Year	Payments in Year	
<u>General Fund</u>				
Itchen Bridge Repairs	866	207	0	1,073
General Insurance Funds	4,993	3,935	(3,205)	5,723
Faulty Windows	111	0	(111)	0
UPVC Plant	158	0	0	158
Minimum Revenue Provision Commutation	987	0	0	987
Other Provisions	105	0	0	105
<b>Total</b>	<b>7,220</b>	<b>4,142</b>	<b>(3,316)</b>	<b>8,046</b>

### 37. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. An analysis of Reserves shown in the balance sheet, are detailed below.

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 2007/08. 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 shown on **page 43**.

	Balance at 1st April 2007 £'000	Net Movement in year £'000	Balance at 31st March 2008 £'000	Purpose of Reserve	Further Detail of movement
Revaluation Reserve	0	44,429	44,429	Gains on revaluation of fixed assets	a) below
Capital Adjustment Account	1,384,862	(18,372)	1,366,490	Records all movement on fixed assets with the exception of revaluation reserves	b) below
Usable Capital Receipts	6,267	5,398	11,665	Proceeds of fixed asset sales available to meet future capital investments	c) below
Pension Reserve	(218,130)	53,820	(164,310)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	Note 44 to the Core Financial Statements, <b>pages 44-47</b>
Housing Revenue Account	1,594	1,514	3,108	Resources available to meet future running costs of housing services.	HRA Statements <b>pages 56-62</b>
Collection Fund Balance	507	(44)	463	Southampton City Council's share of the Collection Fund surplus.	Collection Fund Statement <b>page 63</b>
Available-for-Sale Financial Instruments Reserve	0	20	20	Movement in fair value on investment bond due to changing economic conditions	Note 32 to the Core Financial Statements, <b>page 37</b>
General Fund Balances	10,922	1,334	12,256	Resources available to meet future running costs of non- housing services.	Statement of Movement on the General Fund
Other Reserves	25,943	3,831	29,774		d) below
<b>TOTAL RESERVES</b>	<b>1,211,965</b>	<b>91,930</b>	<b>1,303,895</b>		

## NOTES TO THE CORE FINANCIAL STATEMENTS

### a) Revaluation Reserve

This reserve is debited or credited with the impact of the revaluation of assets since the 1 April 2007. The size of the Reserve of £44M 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.

### b) Capital Adjustment Account

As a result of accounting requirements for fixed assets this account has been created for transactions relating to capital assets with the exception of gains on revaluation which has a separate reserve from the 1 April 2007, as detailed above. Gains prior to that date have been consolidated into this account which also records depreciation, expenditure on fixed assets financed from revenue, reserved proportion of capital receipts and capital receipts applied to finance expenditure on fixed assets.

### c) Useable Capital Receipts Reserves

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. Local Authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all the proceeds from certain HRA assets where they are used to fund affordable housing or regeneration schemes.

2006/07		2007/08		Total
<u>Total</u>		<u>Housing Revenue</u>	<u>General</u>	
£000's		<u>Account</u>	<u>Fund</u>	£000's
		£000's	£000's	
2,571	Opening Balance at 1st April	957	5,310	6,267
	Receipts in Year:-			
	Sale of Assets			
7,235	Council Housing	6,138	0	6,138
6,842	Land, Buildings & Equipment	606	11,061	11,667
112	Repayment of Advances	54	0	54
70	Other	0	168	168
<u>16,830</u>		<u>7,755</u>	<u>16,539</u>	<u>24,294</u>
(117)	Allowable deduction arising from Disposal	(76)		(76)
<u>16,713</u>		<u>7,679</u>	<u>16,539</u>	<u>24,218</u>
	Application in Year:-			
0	Inter Portfolio Transfer	(1,485)	1,485	0
(5,131)	Financing of new Capital Expenditure	(1,561)	(6,429)	(7,990)
(5,315)	Pooled Receipts	(4,498)	0	(4,498)
	Other Adjustments	(65)	0	(65)
<u>6,267</u>	<b>Closing Balance at 31st March</b>	<u>70</u>	<u>11,595</u>	<u>11,665</u>

### d) Other Earmarked Reserves

These are monies set aside for specific reasons but have yet to be applied for that purpose.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Balance at 31.03.07		Net Movement in Year	Balance at 31.03.08
£000's	<u>Other Earmarked Reserves</u>	£000's	£000's
12	HCC Admin/Sals Adjustment	0	12
4,556	PFI Sinking Fund	167	4,723
34	SCC External Investments	0	34
6,304	School Balances	1,159	7,463
1,239	On Street Parking	162	1,401
377	Transport Repairs Equalisation	(18)	359
100	Invest to Save	(100)	0
0	Transformation Top Up Reserve	540	540
16	Housing Act Advances	0	16
12,320	Housing Revenue Contributions to Capital	2,906	15,226
985	Education Reserve	(985)	0
<b>25,943</b>		<b>3,831</b>	<b>29,774</b>

### 38. Contingent Liabilities and Assets

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

An amount of £1.1 million is being claimed by a contractor in respect of a claim relating to a capital contract. The authority disputes the validity of this claim and has made no provision in the accounts.

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.

### 39. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by the council's Standards and Governance Committee on 26<sup>th</sup> June 2008.

### 40. Post Balance Sheet Events

There are no post balance sheet events to report.

### 41. Trust Funds

As required by the Statement of Recommended Practice, Trust Funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of Trust Funds where the Council is sole trustee can be found on **pages 66-70**.

### 42. Reserves and Balances held by Schools

These are balances held by schools under delegated schemes and are committed to be spent on education services. School balances as at 31st March 2008 (31st March 2007) total £7,464k (£6,304k), consisting of £7,843k (£6,597k) reserves and £379k (£293k) loans.

### 43. Amounts Due to or from Related Parties

As at 31st March 2008, significant monies outstanding from related parties were:

## NOTES TO THE CORE FINANCIAL STATEMENTS

2006/07		2007/08	
£000's		£000's	
	<u>Money Owed to SCC</u>		
2,514	HM Revenues & Customs (VAT)	2,708	
3,168	Department for Works & Pensions (Housing Benefits)	2,731	
4,922	Department of Communities and Local Government	5,995	
<b>10,604</b>	<b>Balance Carried forward</b>	<b>11,434</b>	

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

2006/07		2007/08	
£000's		£000's	
	<u>Money Owed by SCC</u>		
4,607	National Insurance & PAYE	4,683	
1,955	Local Government Superannuation	1,880	
948	Teacher's Superannuation	944	
3,468	Department for Education & Skills	3,288	
2,712	Department of Communities and Local Government	10,788	
<b>13,690</b>	<b>Balance Carried forward</b>	<b>21,583</b>	

### 44. Retirement Benefits

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.

#### a) Current Service Costs

In 2007/08, the Council paid an employer's contribution of £21.2 Million into Hampshire County Council's Pension Fund, equating to 295% of employee's contributions. The contribution rate is determined by the Fund's Actuary, based on triennial valuations. As a result of the new LGPS the employers' contributions are now related to gross pay. For 2008/09 this equates to 18.1% and increases to 18.6% in 2009/10 and 19.1% in 2010/11.

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 in the Statement of Movement in the General Fund. The tables below show the transactions that have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	2006/07		2007/08	
	£000's	£000's	£000's	£000's
<b>Income and Expenditure Account</b>				
<i>Net Cost of Service</i>				
Current service costs		21,650		21,560
Past service costs		3,701		5,940
<i>Net Operating Expenditure</i>				
Interest Cost	27,139		31,460	
Expected return on assets in the scheme	(21,880)	5,259	(25,420)	6,040
<b>Net Charge to the Income and Expenditure Account</b>		<b>30,610</b>		<b>33,540</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2006/07</u> £000's	<u>2007/08</u> £000's
<b>Statement of Movement in the General Fund Balance</b>		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(30,610)	(33,540)
<i>Actual amount charged against the General Fund Balance for Pensions in the Year:</i>		
Employers' contributions payable to scheme	20,220	21,210
	<u>(10,390)</u>	<u>(12,330)</u>

### b) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31<sup>st</sup> March are as follows:

	<u>2006/07</u> £000's	<u>2007/08</u> £000's
Estimated Liabilities in scheme	(551,180)	(505,100)
Estimated Liabilities of discretionary benefits	(36,160)	(33,170)
Share of Assets in the Fund	369,210	373,960
<b>Net Asset / (Liability)</b>	<u>(218,130)</u>	<u>(164,310)</u>

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £164,310k 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.

### c) Basis for Estimating Assets and Liabilities

The most recent valuation 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 2007. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Movement in net liabilities for the year is shown in the following table:

<u>2006/07</u>	<u>2007/08</u>
210,000 Opening Balance	218,130
21,650 Current Service Cost	21,560
3,700 Past Service Costs (added years)	5,940
27,140 Interest costs	31,460
(21,880) Return on Assets	(25,420)
(20,220) Payments to Pension Fund	(21,210)
(2,260) Actuarial Losses (Surplus) on Fund	(66,150)
<u>218,130</u> Balance Carried Forward	<u>164,310</u>

The main assumptions used in their calculations have been:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2006/07</u>	<u>2007/08</u>
Inflation	3.2%	3.7%
Rate of general long-term increase in salaries	4.7%	5.2%
Rate of increase in pensions in payment	3.2%	3.7%
Rate of increase to deferred pensions	3.2%	3.7%
Discount rate	5.3%	6.8%

The market value of the assets of the Hampshire County Council Pension Fund at 29<sup>th</sup> February 2008 was £2,934.4 Million. The assets as at 31 March 2008 have been estimated using index returns between 29<sup>th</sup> February and 31st March 2008. The asset values used as at the accounting date are set out below.

	Long-term rate of return expected at 31st March 2007			Long-term rate of return expected at 31st March 2008		
	(% pa)	Estimated Value at 31st March 2007 (£'000)	(%)	(% pa)	Estimated Value at 31st March 2008 (£'000)	(%)
Equities	7.7	1,940,230	(67)	7.6	1,807,600	(62)
Property	6.7	130,880	(4)	6.6	168,000	(6)
Government Bonds	4.7	597,210	(21)	4.6	775,600	(27)
Corporate Bonds	5.3	77,000	(3)	6.8	0	0
Other Assets	5.6	140,160	(5)	6.0	167,000	(5)
<b>Total</b>	<b>6.9</b>	<b>2,885,480</b>	<b>(100)</b>	<b>6.7</b>	<b>2,918,200</b>	<b>(100)</b>

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

The actuarial gains identified as movements on the pensions Reserve in 2007/08 and are analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2008:

	<u>2003/04</u>		<u>2004/05</u>		<u>2005/06</u>		<u>2006/07</u>		<u>2007/08</u>		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	20,910	10.2	9,200	3.5	44,150	13.2	(490)	(1.0)	(32,300)	(8.6)	of scheme assets
Experience gains and losses on pension liabilities	(180)	0.1	23,240	5.3	120	0.0	(1,290)	(2.0)	(3,030)	(1.0)	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	770	0.2	(80,690)	(18.5)	(37,290)	(7.3)	4,040	7.0	101,480	19.0	of scheme liabilities
	<u>21,500</u>	<u>6.7</u>	<u>(48,250)</u>	<u>(11.0)</u>	<u>6,980</u>	<u>1.4</u>	<u>2,260</u>	<u>4.0</u>	<u>66,150</u>	<u>12.3</u>	

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Reserves. The change has not affected the figures in the Income and Expenditure Account. It is anticipated that this figure will increase as the members of the scheme approach retirement.

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.



# NOTES TO THE CORE FINANCIAL STATEMENTS

## e) Defined Contribution Schemes

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

In 2007/08 the City Council paid £7.8 Million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2006/07 were £7.2 Million and 14%.

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

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability described in note c) above.

## 45. Notes to Cash Flow Statement

### a) Management of Liquid Resources

As at the 1 April 2007, the Council held £40.536 million of short term investments that could be realised in a relatively short time. These have increased by £33.613 million in 2007/08 to £74.149 million at 31st March 2008. The Balance Sheet figure for short term investments of £75.313 million includes accrued interest of £1.164 million.

### b) Reconciliation of Revenue Account Deficit to Net Cash Flow from Revenue Activities

<u>2006/07</u> £000's		<u>2007/08</u> £000's
(246)	General Fund	(1,334)
(27)	HRA	(1,514)
(2,160)	Collection Fund	346
<hr/> (2,433)		<hr/> (2,502)
	<u>Add Back</u>	
(9,641)	Appropriations to Reserves	(9,229)
(13,664)	Non Cash Items	(8,921)
(1,727)	Provisions	(827)
<hr/> (27,465)		<hr/> (21,479)
	<u>Items on an Accruals Basis</u>	
230	Stock/WIP (decrease)/increase	(373)
779	Long Term Debtors (decrease)/increase	4,748
131	Short Term Debtors (decrease)/increase	2,182
1,190	Creditors (increase)/decrease	(20,637)
<hr/> (25,135)		<hr/> (35,559)
	<u>Items Classified in another classification in the Cash Flow Statement</u>	
2,588	Interest Received	4,941
(5,984)	Interest Paid	(6,978)
<hr/> <u>(28,531)</u>	<b>Net (inflow)/outflow</b>	<hr/> <u>(37,596)</u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Reconciliation of Net Cash Flow to Movements in Net Debt

<u>2006/07</u> £000's		<u>2007/08</u> £000's
502	Increase / (Decrease) in Cash	(4,442)
1,023	Outflow / (Inflow) from Short Term Borrowing.	6,938
(9,732)	Inflow from New Long Term Borrowing	(9,974)
11,331	Purchase of Current Asset Investments	33,154
<u>(1,260)</u>	Non Cash Movements in Net Debt	<u>1,080</u>
1,864	Movement in Net Debt	26,756
<u>(104,318)</u>	Net Debt at 01.04.07	<u>(102,454)</u>
<u><b>(102,454)</b></u>	<b>Net Debt at 31.03.08</b>	<u><b>(75,698)</b></u>

### d) Other Government Grants

<u>2006/07</u> £000's		<u>2007/08</u> £000's
2,033	Benefits Administration	2,271
431	Housing Defect Act	119
335	NNDR Collection Grant	328
<u><b>2,799</b></u>		<u><b>2,718</b></u>

### e) Analysis of Changes in Net Debt

	<u>01.04.07</u>	£000's <u>Movement</u>	<u>31.03.08</u>
Bank Overdraft	(3,261)	(4,421)	(7,682)
Cash in Hand and Bank	243	(21)	222
Debts Due:			
Within 1 Year	(13,451)	6,938	(6,513)
After 1 Year	(126,944)	(10,094)	(137,038)
Current Asset Investments	40,959	34,354	75,313
	<u><b>(102,454)</b></u>	<u><b>26,756</b></u>	<u><b>(75,698)</b></u>

## 46. Dedicated Schools Grants

The council's expenditure on schools is funded by grant provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2007/08 are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Schools Budget Funded by Dedicated School Grant</b>			
	<u>Central Expenditure</u>	<u>Individual Schools Budget</u>	<u>Total</u>
	£'000	£'000	£'000
Original grant allocations to Schools Budget for the current year in the Authority's budget	13,313	100,612	113,925
Adjustment to finalised grant allocation	(456)	(790)	(1,245)
<b>DSG receivable for the year</b>	<b>12,857</b>	<b>99,822</b>	<b>112,679</b>
Actual expenditure for the year	13,046	99,812	112,858
<b>(Over)/under-spend for the year</b>	<b>(189)</b>	<b>10</b>	<b>(179)</b>
Planned top-up funding of ISB from Council Resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/under-spend from prior year	283	0	283
<b>(Over)/under-spend carried forward to 2008/09</b>	<b>94</b>	<b>10</b>	<b>104</b>

### 47. Contributions to Other Local Authorities

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

<u>2006/07</u> £000's	<u>2007/08</u> £000's
33 Southern Seas Fisheries	39
429 Coroners Services	404
39 Flood Defence	40
<b>501</b>	<b>483</b>

### 48. Revenue Contribution to Deferred Assets

At the end of the PFI Schools contract, the schools will revert to Council ownership. A deferred asset is built up over the life of the contract with the expected residual value. The residual value is credited to Education's cost of service over the remaining life of the contract (£1,045k p/a) to reflect the lower unitary charge that would be payable if no residual value of the assets existed. The expected residual value of the 3 schools is £26.5 million. This is credited in equal proportions over the remaining 23 years and 5 months of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

### 49. Long Term Debtors

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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.

## b) PFI Schools

Long Term Debtors include deferred prepayments relating to the PFI Schools (£1,045k for 2007/08, £3,136k cumulative). Under the terms of the contract, the school buildings will revert to the authority's ownership at nil additional cost at the conclusion of the contract. In accordance with the SORP, the element of the annual contract payment which is deemed to relate to the acquisition of these assets has been accounted for as a prepayment, which will accumulate over the life of the contract. Assets that the Council contributed to the contract are treated as a deferred consideration which is written down to revenue over the life of the contract. More information relating to the PFI contract is included in the Statement of Accounting Policies on **page 15**.

## c) IT Assets transferred to Capita

A balance for Deferred Consideration (within Long Term Debtors) has been established with the Net Book Value of the assets (£3,247k). The deferred consideration is then written down to zero over the 10 year life of the contract with the debit entry being to the Income and Expenditure Account (£423k). This is then reversed out through the Statement of Movement on General Fund Balance. As the authority has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the 10 year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£167k). More information relating to the contract with Capita is included in the Accounting Policies, **note 22**, on **page 16**.

## d) 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.

<u>31.03.07</u> £000's		<u>31.03.08</u> £000's
	<b>Mortgages</b>	
190	Sale of Council Houses	149
13	Housing Act Advances	0
<u>203</u>		<u>149</u>
2,026	PFI Schools	3,901
0	IT Assets transferred to Capita	2,991
<u>128</u>	Other	<u>64</u>
<u><u>2,357</u></u>		<u><u>7,105</u></u>

## 50. Deferred Consideration Written Down

Under the PFI Schools contract, the Council donated the Sports Hall at Cantell School as part of the transaction. The benefit the Council receives from transferring this asset in the form of a lower unitary charge is required to be recognised in the accounts. The value of the Sports Hall at the start of the contract was £975,000. This value is amortised to Education's cost of services over the 30 year life of the contract, (£32.5k per year) to reflect the full cost of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

## NOTES TO THE CORE FINANCIAL STATEMENTS

As part of the Strategic Services Partnership contract with Capita the majority of the Council's IT assets have transferred in ownership to Capita. The benefit the Council receives from transferring these assets in the form of a lower contract charge is required to be recognised in the accounts. The value of the IT assets at the start of the contract was £3.2 million. This value is amortised to the Income and Expenditure Account over the 10 year life of the contract to reflect the full cost of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance

### 51. Stocks, Stores and Work in Progress

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

31.03.07 £000's		31.03.08 £000's
	General Fund	
101	Engineer's Stores	93
253	Woodmill shop	142
689	Central Stores	626
0	Building Contract Services	68
68	Catering	68
120	Gas Van	120
193	Other	163
<b>1,424</b>	<b>Total Stocks</b>	<b>1,280</b>
0	Work in Progress	1
<b>1,424</b>		<b>1,281</b>

### 52. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31st March 2008.

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 2008.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2006/07</u> £000's	Creditors	<u>2007/08</u> £000's
	<u>Government</u>	
2,712	Department of Communities & Local Government	10,788
3,599	Department for Education & Skills (DFES)	3,288
627	Department of Health	774
4,607	HM Revenue & Customs (PAYE & National Insurance)	4,683
0	Deputy Prime Minister's Office	903
1,025	South East England Development Agency (SEEDA)	577
948	Teachers Superannuation	944
376	Other Departments	674
<u>13,894</u>		<u>22,631</u>
	<u>Taxpayers</u>	
1,606	Council Tax (prepayments)	1,628
<u>1,606</u>		<u>1,628</u>
	<u>Public Sector Organisations</u>	
4,112	Hampshire County Council	3,517
1,955	Hampshire County Council (Local Government Superannuation)	1,880
208	Other Local Authorities and Public Bodies	1,177
<u>6,275</u>		<u>6,574</u>
	<u>Other</u>	
226	Building Control Competition A/C	217
451	Landfill Allowance Trading Scheme (LATS)	448
0	CAPITA	3,256
<u>26,375</u>	Sundry Creditors	<u>33,708</u>
<u>27,052</u>		<u>37,629</u>
	<u>Housing Revenue Account</u>	
730	Sundry Creditors	1,732
<u>730</u>		<u>1,732</u>
<u><b>49,557</b></u>	<b>Total Creditors</b>	<u><b>70,194</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

2006/07 £000's	<u>Debtors</u>	2007/08 £000's
	Government	
4,922	Department of Communities & Local Government	5,644
1,133	Department for Education & Skills (DFES)	1,086
3,168	Department of Work and Pensions	2,731
706	Department of Health	20
356	Heritage Lottery Fund	420
2,514	HM Revenue & Customs (VAT)	2,708
106	Home Office	674
840	South East England Development Agency (SEEDA)	3,887
526	Sport England	526
63	Other Departments	102
14,334		17,798
	<u>Taxpayers</u>	
6,997	Council Tax	6,860
669	Business Rates	183
7,666		7,043
	<u>Public Sector Organisations</u>	
1,355	Hampshire County Council	1,266
264	Other Local Authorities and Public Bodies	538
1,619		1,804
	<u>Other</u>	
4,263	Housing Benefit	4,521
0	CAPITA	185
125	Leasing	248
451	Landfill Allowance Trading Scheme (LATS)	448
16,415	Sundry Debtors	18,774
21,254		24,176
	LESS Provision for Bad Debts	
(5,683)	Taxpayers	(5,830)
(4,325)	Other	(6,060)
(10,008)		(11,890)
	<u>Housing Revenue Account</u>	
4,652	Sundry Debtors	3,321
(1,394)	LESS Provision for Bad Debts	(1,947)
3,258		1,374
38,123	<b>Total Debtors</b>	40,305

### 53. Short Term Investments

The balance shown comprises of investments that are of less than one year, raised through the Money Market £67,356k and three business reserve accounts £7,957k and includes accrued interest.

### 54. Cash in Hand and Bank Overdraft

The balance shown comprises:

	31.03.07 £000's	31.03.08 £000's
Bank Accounts	3,261	7,682
Petty Cash	(243)	(222)
Total	3,018	7,460

Although the balance shown suggests that the bank is overdrawn by over £7,460k this reflects end of year accounting entries and was not the actual cash position. The Council's balance in the Bank at the 31st March 2008 was actually a credit of £118k.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 55. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1st April 1997 and the Magistrates Courts.

<u>31.03.07</u> £000's		<u>31.03.08</u> £000's
22,625	Balance Brought Forward	21,688
0	Principal raised in year	0
(937)	Principal written down	(868)
<b><u>21,688</u></b>		<b><u>20,820</u></b>

### 56. Deferred Capital Balances

This balance consist of the sale of Council Houses

	<u>01.04.07</u>	£000's		<u>31.03.08</u>
		<u>Receipts</u> in Year	<u>Payments</u> in Year	
Sale of Council Houses	190	5,708	(5,762)	136
	<b><u>190</u></b>	<b><u>5,708</u></b>	<b><u>(5,762)</u></b>	<b><u>136</u></b>

### 57. 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.

2006/07		2007/08
£000's		£000's
22,146	Balance Brought Forward	26,773
5,923	Applied in Year	10,353
(1,296)	Credited to I & E Account	(1,464)
<b><u>26,773</u></b>	<b>Balance Carried forward</b>	<b><u>35,662</u></b>

### 58. Capital Grants and Contributions Unapplied

These are capital grants and contributions that are available to finance new capital expenditure but have yet to be applied for that purpose.

## NOTES TO THE CORE FINANCIAL STATEMENTS

2006/07		2007/08
£000's		£000's
11,486	Balance Brought Forward	13,393
35,297	Amounts Received in Year	37,890
(33,390)	Amounts Applied to Finance Capital in year	(32,024)
<u>13,393</u>	<b>Balance Carried forward</b>	<u>19,259</u>

### 59. Local Area Agreements (LAA)

Southampton's Local Area Agreement was launched on the 1st April 2007 and is a three-year agreement between Central Government (represented by the local Government Office) and the local area (represented by the local authority and other partners on the Southampton Partnership) which set out a number of key priorities and actions that will secure improvements in the delivery and operation of key public sector services for the benefit of all local residents. Progress on delivering the LAA is monitored by the Southampton Partnership Delivery Board through quarterly monitoring reports.

Southampton City Council acts as the accountable body for the LAA. This means that we are responsible for managing the distribution of grant paid by the Government office to the partners involved, but the council does not determine which bodies are due payments – this is determined either by the Government Office or the partnership. In this context the Council acts as an agent to the partnership and has therefore not recognised the full payment of LAA Grant in its financial statements, but only that part to be spent by the Council in providing services.

The total amount of LAA grant received by the Southampton Partnership in 2007/08 is £3,124k revenue funding and £322k capital funding. All of these amounts were used by the council to fund its own services. In addition the Council received £972k in 2007/08 of LAA Pump Priming Grant to cover the period 2007/08 to 2009/10. £84k of this has been distributed to other bodies in 2007/08 as follows:

- £8k Connexions
- £18k Hampshire Fire & Rescue
- £28k Southampton PCT
- £30k Hampshire Police

As accountable body, the council is potentially responsible for repaying to the government any element of grant that is found to have been misused by its partners. Systems are in place for distributing grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for such eventuality.



## 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 Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from the Council Tax Payer.

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

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

### Income and Expenditure Account

<u>2006/07</u>		<u>Notes</u>	<u>2007/08</u>	
£000's	<u>Income</u>		£000's	£000's
(49,745)	Dwellings Rent	1	(51,904)	
(1,405)	Non-Dwelling Rents		(1,441)	
(639)	Tenant Charges for Services & Facilities		(687)	
(1,236)	Contributions Towards Expenditure		(1,199)	
(431)	Housing Revenue Account Subsidy Receivable	8	(119)	
0	Reduced Provision for Bad or Doubtful Debts		0	
<b>(53,456)</b>	<b>Total Income</b>			<b>(55,350)</b>
	<b>Expenditure</b>			
15,497	Repairs and Maintenance		14,365	
14,544	Supervision and Management		15,673	
491	Rents, Rates, Taxes and Other Charges		522	
1,040	Negative Housing Revenue Account Subsidy Payable	8	1,545	
0	Transfer of Bad Debt Provision to General Fund		0	
250	Increased Provision for Bad or Doubtful Debt		800	
12,224	Depreciation and Impairment of Fixed Assets	3	12,432	
60	Debt Management Costs		48	
<b>44,106</b>	<b>Total Expenditure</b>			<b>45,385</b>
<b>(9,350)</b>	<b>Net Cost of Services</b>			<b>(9,965)</b>
410	HRA services share of Corporate & Democratic Core			410
	HRA share of other amounts included in the whole authority Net Cost of Service but not allocated to specific services			
<b>(8,940)</b>	<b>Net Cost of HRA Services</b>			<b>(9,555)</b>
0	(Gain) or loss on sale of HRA fixed assets			0
4,334	Interest payable and similar charges			4,414
(26)	Amortised Premiums and Discounts			0
(89)	Capital Receipts not matched by Disposal of Assets			(113)
(3,644)	Capital Grants & Contributions not transferred to Government Grants Deferred			(4,550)
(499)	Interest and Investment Income	6		(845)
330	Pensions Interest Cost & Expected Returns on Pensions Assets	12		734
<b>(8,534)</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>(9,915)</b>

# HOUSING REVENUE ACCOUNT

## Statement of Movement on the HRA Balance

2006/07 £000's		2007/08 £000's
(8,534)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(9,915)
<u>8,507</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	<u>8,401</u>
(27)	(Increase) or decrease in the Housing Revenue Account Balance	(1,514)
(1,567)	Housing Revenue Account surplus brought forward	(1,594)
<u><u>(1,594)</u></u>	<b>Housing Revenue Account surplus carried forward</b>	<u><u>(3,108)</u></u>

## Note to Statement of Movement on the HRA Balance

£000's		£000's	£000's
	<b>Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
89	Capital Receipts not matched by Disposal of Assets	113	
3,644	Capital Grants & Contributions not transferred to Government Grants Deferred	4,550	
0	Gain or loss on sale of HRA fixed assets	0	
(1,593)	Net Charges made for retirement benefits in accordance with FRS 17	(3,366)	
<b>2,140</b>			<b>1,297</b>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
(171)	Transfer to/(from) Major Repairs Reserve	(199)	
940	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	1,844	
879	Capital Expenditure funded by the HRA	2,553	
4,719	Transfer to/ (from) Direct Revenue Financing Reserve	2,906	
<b>6,367</b>			<b>7,104</b>
<u><u>8,507</u></u>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>		<u><u>8,401</u></u>

# HOUSING REVENUE ACCOUNT

## 1. Council House Rents

At 31st March 2008 (31st March 2007), current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 4.77% (5.95%). The total arrears were £2,774K (£2,878K). Rents written off during the year amounted to £149K (£476K).

The main sources of rent income after allowing for voids of £593K (£681K) are set out in the following table:

2006/07 £000's		2007/08 £000's
21,255	Rent met by Tenants	21,562
28,490	Rent Rebates	30,342
<b>49,745</b>		<b>51,904</b>

## 2. Housing Stock

During the year 1.34% (1.32% for 2006/07) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2007/08 was £57.95 a week (£55.52 for 2006/07). The stock at the year-end was made up as follows:

2006/07		2007/08
17,423	Stock at 1st April	17,312
(111)	Less: Sales	(77)
0	Other/Demolitions	(6)
<b>17,312</b>	Stock at 31st March	<b>17,229</b>
<u>Consisting of :</u>		
5,525	Houses	5,485
11,771	Flats	11,728
16	Bungalows	16
<b>17,312</b>		<b>17,229</b>

## 3. Major Repairs Reserve

<u>Total</u> <u>2006/07</u> £000's		<u>Land</u> <u>2007/08</u> £000's	<u>Dwellings</u> <u>2007/08</u> £000's	<u>Other</u> <u>2007/08</u> £000's	<u>Total</u> <u>2007/08</u> £000's
0	Opening Balance	0	0	0	0
(12,224)	Receipts in Year	0	(12,233)	(199)	(12,432)
12,224	Payments in Year	0	12,233	199	12,432
<b>0</b>	<b>Closing Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# HOUSING REVENUE ACCOUNT

## 4. Capital Expenditure

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

<u>2006/07</u>		<u>Capital Spending</u>		<u>2007/08</u>	
£000's				£000's	
17,511	Housing Stock			22,376	
663	Other Property			17	
<b>18,174</b>	<b>Total Capital Expenditure</b>			<b>22,393</b>	
Capital Expenditure Source of Finance					
£000's				£000's	
102	Capital Receipts			1,561	
1,496	Supported Borrowing			1,496	
0	Unsupported Borrowing			0	
3,446	Grants			4,442	
12,053	Transfer from Major Repairs Reserves			12,233	
198	Contributions			108	
879	Direct Revenue Funding			2,553	
<b>18,174</b>	<b>Total Financing</b>			<b>22,393</b>	

## 5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all the proceeds from certain HRA assets where they are used to fund affordable housing or regeneration schemes.

<u>2006/07</u>		<u>2007/08</u>	
£000's		£000's	
12	Opening Balance at 1st April		958
Receipts in Year:-			
Sale of Assets			
7,235	Council Housing		6,138
1,040	Land, Buildings & Equipment		606
107	Repayment of Advances		54
8,394			7,756
(117)	Allowable deduction arising from Disposal		(76)
8,277			7,680
Application in Year:-			
(1,902)	Inter Portfolio Transfer		(1,485)
(103)	Financing of new HRA Capital Expenditure		(1,561)
(5,315)	Pooled Receipts		(4,498)
0	Other Adjustments		(66)
<b>958</b>	Closing Balance at 31st March		<b>70</b>

## 6. Interest Received

During 2007/08 the Housing Revenue Account received interest amounting to £845K, (2006/07 £499K). The main sources of this income are detailed in the table below.

## HOUSING REVENUE ACCOUNT

<u>2006/07</u>		<u>2007/08</u>
£000's		£000's
15	Council House Mortgages	11
484	Interest on Other Funds & Balances	834
<u>499</u>		<u>845</u>

### 7. Fixed Assets

The DETR Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail on **page 11**.

The vacant possession value of Council Housing within the authority's HRA as at 1<sup>st</sup> April 2007 was £1.427 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. The value is based on stock as at the 31st March 2008.

Stock valuation information is based as at 1 April of each year and as part of resource accounting requirements, the value is uplifted to represent the value at the 31 March. Following an internal audit review the Southampton land registry index is now used as opposed to the South East England index which was overstating the uplift. As a consequence the 2006/07 figures have been restated to reflect the £16.4m overstatement.

<u>Movements in Fixed Assets During 2007/08</u>					
	Operational Assets			Non-Operational Assets	Total
	<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	Investment	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Certified Valuation at 31 March 2007</b>	<b>787,466</b>	<b>5,230</b>	<b>859</b>	<b>11,430</b>	<b>804,985</b>
Accumulated depreciation and impairment	0	0	0	0	0
<b>Net Book Value of Fixed Assets at 31st March 2007</b>	<b>787,466</b>	<b>5,230</b>	<b>859</b>	<b>11,430</b>	<b>804,985</b>
<b>Movement in Year</b>					
Additions	22,376	17			<b>22,393</b>
Disposals	(6,121)			(485)	<b>(6,606)</b>
Transfer				(87)	<b>(87)</b>
Revaluations	8,252	302		165	<b>8,719</b>
Depreciation	(12,233)		(199)		<b>(12,432)</b>
Impairments					
<b>Net Book Value of Fixed Assets at 31st March 2008</b>	<b>799,740</b>	<b>5,549</b>	<b>660</b>	<b>11,023</b>	<b>816,972</b>

## HOUSING REVENUE ACCOUNT

### 8. 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. With effect from the 1st April 2004 Rent Rebate Subsidy was removed from the HRA and is now charged to the General Fund. The HRA therefore now only receives General Housing Subsidy

The table below shows a breakdown of the amount of HRA subsidy payable to the Council for 2007/08 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2007/08.

<u>2006/07</u> £000's		<u>2007/08</u> £000's
431	Housing Defects Act	119
	<b>Housing Subsidy Entitlement in Year</b>	
29,543	Management and Maintenance	31,108
12,053	Major Repairs Allowance	12,233
5,658	Charges for Capital	5,871
58	Admissible Allowance	0
	Anti Social Behaviour Allowance	0
408	Rental Constraint Allowance	1,261
(23)	Interest on Receipts	(15)
(48,692)	Guideline Rent Income	(52,003)
(995)		(1,545)
(45)	Previous Years Subsidy Adjustment	0
<u>(609)</u>	<b>Total Housing Subsidy</b>	<u>(1,426)</u>

### 9. Provision for Bad Debts

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

<u>2006/07</u> £000's		<u>2007/08</u> £000's
249	MRC Bad Debt Provision	300
1,145	Rents Bad Debt Provision	1,646
<u>1,394</u>		<u>1,946</u>

### 10. Minimum Revenue Provision (MRP)

The introduction of the 2003 Local Government Act abolished the statutory requirement for the HRA to make a revenue contribution towards the repayment of debt. The impact of this will be higher levels of future outstanding debt.

### 11. Direct Revenue Financing Reserve

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

## HOUSING REVENUE ACCOUNT

<u>2006/07</u>		<u>2007/08</u>	
<u>£000's</u>		<u>£000's</u>	
	<b>Direct Revenue Financing Reserve</b>		
(7,601)	Direct Revenue Financing Balance Brought Forward	(12,320)	
(5,598)	Contribution From Revenue In Year	(5,459)	
879	Applied for Capital	2,553	
<u>(12,320)</u>	<b>Balance Carried Forward</b>	<u>(15,226)</u>	

## 12. Pensions

Under FRS17 the Council has the option to charge part of the pension costs to the HRA, it was decided to implement this option from the 1<sup>st</sup> April 2005. The table below shows the total HRA share of contributions to and from the Pension Reserve and breaks the figure down to show the type of contribution to or from the reserve.

<u>Local Government Pension Scheme</u>				
	<u>2006/07</u>		<u>2007/08</u>	
	£000's	£000's	£000's	£000's
<b><u>Costs Shown in Net Cost of Service</u></b>				
Current service costs		1,360		2,644
Past service costs		233		722
<b><u>Net Operating Expenditure</u></b>				
Interest Cost	1,705		3,825	
Expected return on assets in the scheme	<u>(1,375)</u>		<u>(3,091)</u>	
		330		734
<b><u>Amounts to be met from HRA</u></b>				
Movement on pensions reserve		(653)		(1,521)
<b><u>Actual amount charged against HRA</u></b>				
Employer's contributions payable to scheme		<u>1,270</u>		<u>2,579</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 national non-domestic rates (NNDR) and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated within the accounts.

<b>Income and Expenditure for the Year Ended 31 March 2008</b>			
<b>2006/07</b>		<b>Notes</b>	<b>2007/08</b>
<b>£000s</b>			<b>£000s</b>
<b>Income</b>			
(69,040)	Council Tax	2	(72,763)
	Transfers from the General Fund		
(14,180)	- Council Tax Benefits	3	(14,694)
0	- Transitional Relief		0
<u>(83,220)</u>			<b>(87,457)</b>
<b>(77,388)</b>	Income Collectable from Business Ratepayers	1	<b>(79,881)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus		
(1,944)	- Southampton City Council		704
(209)	- Hampshire Police Authority		77
(96)	- Hampshire Fire & Rescue Service		34
<u>(162,857)</u>	<b>Total Income</b>		<b>(166,524)</b>
<b>Expenditure</b>			
	Precepts		
70,892	- Southampton City Council Precept	4	73,893
7,707	- Hampshire Police Authority Precept	4	8,163
3,462	- Hampshire Fire & Rescue Service Precept	4	3,651
<b>82,061</b>			<b>85,707</b>
	Business Rates		
76,559	- Payment to National Pool		79,239
96	- Interest on Overpayments		121
335	- Costs of Collection	5	328
<b>76,990</b>			<b>79,688</b>
	Bad and Doubtful Debts		
	Council Tax		
954	- Write Offs	6	730
(47)	- Provisions	6	255
<b>907</b>			<b>985</b>
	Business Rates		
517	- Write Offs	6	653
(119)	- Provisions	6	(109)
<b>398</b>			<b>544</b>
<b>160,356</b>	<b>Total Expenditure</b>		<b>166,924</b>
<u>(2,501)</u>	<b>(Surplus) / Deficit For the Year</b>		<b>401</b>
1,913	(Surplus) / Deficit Brought Forward		(588)
<u>(588)</u>	<b>Total (Surplus) / Deficit</b>		<b>(187)</b>



# THE COLLECTION FUND

## 1. Non-Domestic Rates

Southampton City Council collects national non-domestic rates (NNDR) for its area on behalf of central government. These rates are based on rateable values for properties set by the Valuation Office Agency, part of HM Revenues and Customs, which are multiplied by a uniform business rate set by central government. The uniform business rate was set at 44.4p in the pound for 2007/08 (43.3p for 2006/07). The small business rate relief multiplier for 2007/08 is 44.1p in the pound for 2007/08 (42.6p for 2006/07). The rateable value at 31st March 2008 was £216,126k (£216,782k at 31st March 2007). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool managed by central government. The government redistributes the sums paid into the pool back to local authorities in proportion to population. Southampton's share of the pool for 2007/08, paid directly to the Income and Expenditure Account, amounted to £77,190k.

## 2. Council Tax Base

	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Dis	57	5/9	32
Band A	22,885	6/9	15,257
Band B	26,967	7/9	20,974
Band C	18,338	8/9	16,300
Band D	8,012	9/9	8,012
Band E	2,661	11/9	3,252
Band F	1,215	13/9	1,755
Band G	391	15/9	652
Band H	3	18/9	6
	<u>80,529</u>		<u>66,240</u>

Taking the total Band D equivalents of 66,240 and multiplying this by the standard council tax of £1,316.25 gives a total estimated income from taxpayers of £87,188k. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2007/08 was 98.3%, giving a net Council Tax Base of 65,114. Multiplying this by the standard council tax of £1,316.25, gives the total precepts on the Collection Fund of £85,707k.

## 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 (£328k).

## THE COLLECTION FUND

### 6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £985k in 2007/08. At the 31st March 2008 the provision totalled £5,519k against a liability of £8,617k.

The contribution to the NDR Bad Debt provision is £544k in 2007/08. At the 31st March 2008 the provision totalled £310k against a liability of £879k.

### 7. Collection Fund Balance

The year end balance on the Collection Fund of £187k can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £161k and shown as a revenue balance in the Balance Sheet. The remaining £27k attributable to the other preceptors is included within Creditors in the Balance Sheet.

The movement on the Collection Fund balance between 31 March 2007 and 31 March 2008 is £346k. This is shown in the Statement of Total Recognised Gains and Losses.

## 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. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet.

Following the introduction of the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005), a separate statement of financial affairs and balance sheet relating to the trust funds are reported on **pages 67–70**.

Other Funds are:

- **Wessex Slaughterhouse Board** – The Council has responsibility of the former constituent authorities to pay the pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between the constituent authorities.
- **Criminal Injuries Compensation Awards** – Funds are held on behalf of children under 18 who fall under the Councils supervision.
- **Social Services Residents Account** – This account holds personal monies on behalf of residents in old people's homes. During 2007/08 these accounts have been closed.

The Other Funds are analysed as follows:

<u>Other Funds</u>	<u>2006/07</u> £000's	<u>Receipts</u> £000's	<u>Payments</u> £000's 's	<u>2007/08</u> £000's
Wessex Slaughterhouse Board	(98)	(6)	2	(102)
Criminal Injuries Compensation Board	(75)	(3)	21	(57)
Social Services Residents Accounts	(3)	0	3	0
<b>Total</b>	<b>(176)</b>	<b>(9)</b>	<b>26</b>	<b>(159)</b>

The Trust Funds are:

- Chipperfield Trust – Purchase works of art.
- L. C. Smith Bequests – Help maintain the Merchants Navy Memorial in Holyrood Church
- Miss Orris Bequest – Purchase of pictures for the Art Gallery
- Aldridge Bequest – To facilitate the access of disadvantaged pupils to personal enrichment experiences
  - Minor Trust Funds consist of several funds of small value as follows
  - 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.
  - George Knee Fund – Provision of special annual prizes for Bitterne Park School.
  - De Gee – Annual treat for children of the former Hollbrook Children's home.
  - Dora Linton - Help maintain the Merchants Navy Memorial in Holyrood Church.

# TRUST AND OTHER FUNDS

Statement of Financial Activities for the year ending 31 March 2008					
2006/07			2007/08		
Net £000's	Trust Funds Resources expended and (incoming resources)	Notes	Expenditure £000's	Income £000's	Net £000's
		4/5/7			
(6)	Chipperfield Trust		3	(14)	(11)
8	LC Smith Bequest		3	(2)	1
1	Miss Orris Bequest		26	(9)	17
(10)	Aldridge Bequest		7	(18)	(11)
0	Minor Trust Funds		1	(2)	(1)
	<b>Total net incoming resources before other recognised gains and losses</b>		<b>40</b>	<b>(45)</b>	<b>(5)</b>
	<b>Unrealised (gains)/losses on investment assets</b>	6			
9	Chipperfield Trust		0	(1)	(1)
0	Aldridge Bequest		8	0	8
0	Minor Trust Funds		0	0	0
<b>9</b>	<b>Total Unrealised (gains)/losses on investment assets</b>				<b>7</b>
	<b>Net movement in funds</b>				
3	Chipperfield Trust				(12)
8	LC Smith Bequest				1
1	Miss Orris Bequest				17
(10)	Aldridge Bequest				(3)
0	Minor Trust Funds				(1)
<b>2</b>	<b>Total net movement in funds</b>				<b>2</b>
	<b>Reconciliation of funds</b>			<b>Net movement in funds</b>	<b>Total funds Carried Forward</b>
	<b>Total Funds brought forward</b>				
(132)	Chipperfield Trust			(12)	(144)
(41)	LC Smith Bequest			1	(40)
(162)	Miss Orris Bequest			17	(145)
(358)	Aldridge Bequest			(3)	(361)
(39)	Minor Trust Funds			(1)	(40)
<b>(732)</b>	<b>Total Funds carried forward</b>			<b>2</b>	<b>(730)</b>

# TRUST AND OTHER FUNDS

Balance Sheet as at 31 March 2008		
2006/07 £000's		2007/08 £000's
	<b>Fixed Assets</b>	
	<b>Investments</b>	
68	Chipperfield Trust	69
201	Aldridge Bequest	193
4	Minor Trust Funds	4
<b>273</b>	<b>Total Fixed Assets</b>	<b>266</b>
	<b>Currents Assets</b>	
	<b>Internal Investments Accounts</b>	
64	Chipperfield Trust	75
41	LC Smith Bequest	40
162	Miss Orris Bequest	145
157	Aldridge Bequest	168
35	Minor Trust Funds	36
<b>459</b>	<b>Net Current Assets</b>	<b>464</b>
<b>732</b>	<b>Total assets less current liabilities</b>	<b>730</b>
<b>732</b>	<b>Net assets</b>	<b>730</b>
	<b>Trust Funds</b>	
136	Chipperfield Trust	148
(4)	Chipperfield Trust Unrealised Gains/(Losses) Account	(4)
41	LC Smith Bequest	40
162	Miss Orris Bequest	145
265	Aldridge Bequest	277
93	Aldridge Bequest Unrealised Gains/(Losses) Account	84
40	Minor Trust Funds	41
(1)	Minor Trust Funds Unrealised Gains/(Losses) Account	(1)
<b>732</b>		<b>730</b>

# TRUST AND OTHER FUNDS ACCOUNTING POLICIES

## 1. Basis of accounting

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

## 2. Change in the basis of accounting

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

## 3. Changes to previous accounts

The 2006/07 accounts have been restated to include the Cemeteries Legacy which is included under Minor Trust Funds.

## 4. Incoming Resources

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

## 5. Investment Income

This is included in the accounts when receivable.

## 6. Investment gains and losses

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

## 7. Analysis of incoming resources

2006/07		<u>Analysis of Incoming Resources</u>				2007/08	Total Incoming Resources £ 000's
		Sales £ 000's	Other £ 000's	Dividends - Unit Trusts and Gilts £ 000's	Investment Interest * £ 000's		
(7)	Chipperfield Trust	0	0	(6)	(8)	(14)	
(3)	LC Smith Bequest	0	0	0	(2)	(2)	
(8)	Miss Orris Bequest	0	0	0	(9)	(9)	
(17)	Aldridge Bequest	0	0	(9)	(9)	(18)	
(2)	Minor Trust Funds	0	0	(1)	(1)	(2)	
<b>(37)</b>	<b>Total</b>	<b>0</b>	<b>0</b>	<b>(16)</b>	<b>(29)</b>	<b>(45)</b>	

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

## **TRUST AND OTHER FUNDS ACCOUNTING POLICIES**

### **8. Other expenditure disclosures**

Expenditure for the year was nil for the following items

- Trustees' expenses and emoluments
- Staff costs
- Auditor's remuneration.

### **9. Funds Structure**

All the trust funds are classed as unrestricted funds. Unrestricted funds comprise of funds which the Trustee is free to use for any purpose in furtherance of the trust's objectives as set out in its governing document.

# GLOSSARY

## 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 that is aimed at measuring the economy, efficiency and effectiveness of all local authority services.

## 3. Budget

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

## 4. Capital Asset Charges

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

## 5. Capital 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. Creditor

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



# GLOSSARY

## 12. Debtor

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

## 13. 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.

## 14. Depreciation

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

## 15. Fair Value

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

## 16. Financial Assets

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

## 17. Finance Lease

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

## 18. Financial Instrument

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

## 19. Financial Liability

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

## 20. Financial Reporting Standard (FRS)

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

## 21. Fixed Assets

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

# GLOSSARY

## 22. General Fund

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

## 23. Going Concern

The concept that the 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.

## 24. Government Grants

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

## 25. Housing Revenue Account

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

## 26. Impairment

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

## 27. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

## 28. Long Term Investments

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

## 29. Long-Term Contracts

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

## 30. Materiality

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

## 31. National Non Domestic Rate

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

# GLOSSARY

## **32. 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.

## **33. 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.

## **34. Net Expenditure**

Total expenditure for a service less directly related income.

## **35. 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.

## **36. 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.

## **37. Operating Leases**

A lease other than a finance lease.

## **38. 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.

## **39. 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.

## **40. Revenue Expenditure/Income**

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

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

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

# GLOSSARY

## 42. 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.

## 43. Useful Life

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