

Public Document Pack

Governance Committee

Tuesday, 25th September, 2012
at 6.00 pm

MEMBERS' ROOM DOCUMENTS

This meeting is open to the public

Members

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MEMBERS' ROOM DOCUMENT

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Monday, 17 September 2012

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Statement of Accounts

2011-12





FINANCIAL STATEMENTS 2011/12

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FINANCIAL FOREWORD

FINANCIAL FOREWORD

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 provide a summary of the Council's financial performance for 2011/12.

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

The Council's Financial Statements concentrate on clear and accurate reporting of the financial position of the Council in relation to a particular year. 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 and notes are:	Page
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FINANCIAL FOREWORD

FINANCIAL SUMMARY

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

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

REVENUE

General Fund Revenue Account Summary

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

- Compare actual spending to budget
- Explain the big differences
- Explain where the money came from and
- Show where the money went

Comparing Actual Spending to Budget

Our net expenditure budget for the year was set at £190.7M and was supported by a council tax which was frozen at the same level as 2010/11 (which gave a Band D council tax of £1,239.21 for Southampton City Council).

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

- £80.1M of business rates (National Non-Domestic Rates from the Pool)
- £24.8M of general government grant (Revenue Support Grant) and
- £82.6M of council tax income and
- £3.2M Collection Fund surplus

It also assumed a contribution would be made to general reserves and working balances of just over £1.0M.

The Comprehensive Spending Review (CSR) released in October 2010 and the detailed Local Government Finance Settlement announced in December 2010 confirmed the unprecedented reductions in Local Government Funding for the 4 year period 2011/12 – 2014/15, with the decrease in funding front loaded to 2011/12. The impact of these reductions on the City Council was a loss of formula grant in 2011/12 of 10.1%, and though the majority of former specific and area based grants were transferred into formula grant, which serves to distort the headline figures, the reduction in the remaining grants is in the order of 20% in 2011/12.

Furthermore, since the Council set its 2011/12 budget in February 2011, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council, with a rigorous assessment of vacant posts being undertaken prior to external recruitment to ensure that non essential posts were not recruited to. In addition to this recruitment freeze on all non essential vacant posts, a moratorium on all non essential spend was put in place to yield additional in-year savings to support the overall budget.

The original budget plans were updated during the course of the year and the contribution to working balances was revised to a draw of £1.5M in February 2012. Further changes resulted in an anticipated draw of £0.8M compared to the originally planned contribution of £1.0M, an increase of £1.8M.

The final outturn for the year was £184.6M and the contribution made to balances was £6.1M.

Overall, there was a net reduction in the use of the Authority's reserves and general balances in the year of some £6.9M compared with the working budget.

Explaining the Big Differences

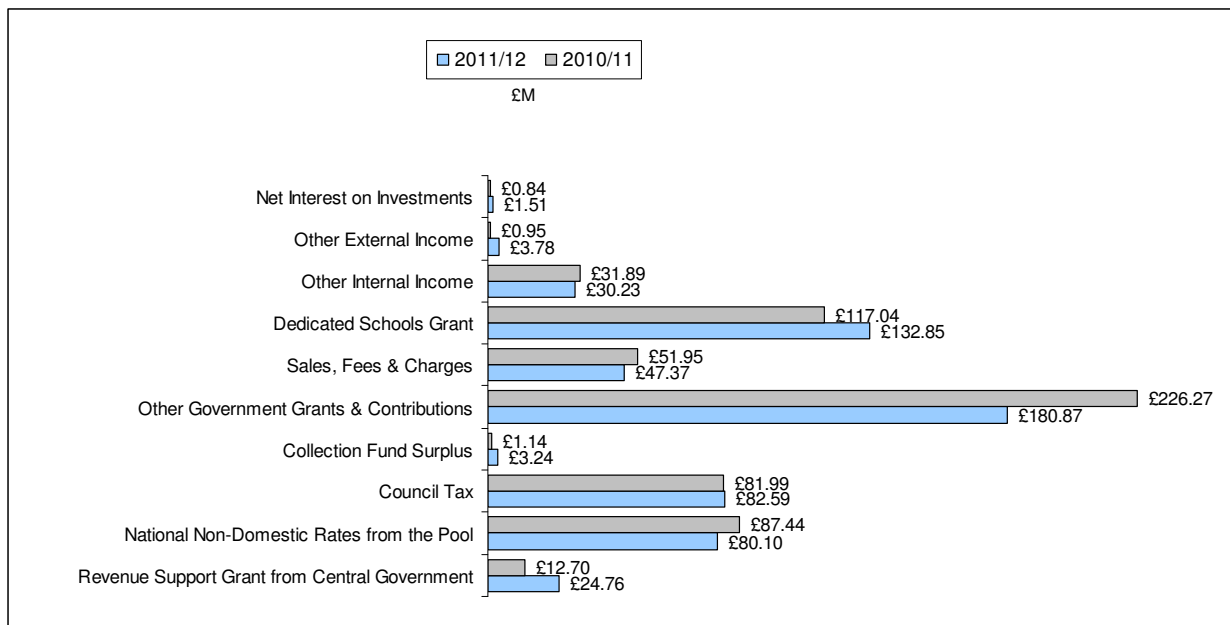
The major variances between the revised budget for the use of reserves and general balances in the year and the actual usage are:

FINANCIAL FOREWORD

	£000's
Savings in Portfolio budgets	(3,833)
Reduced net borrowing costs due to lower interest rates and rephasing of the capital programme	(129)
Exceptional Income - VAT	(2,746)
Other Variances	(215)
	<u>(6,923)</u>

Where the Money Came From

The following chart provides an analysis of our main sources of income for the year which totalled £587.3M and also shows the comparative figures for 2010/11 (£612.2M):



Where the Money Went

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

FINANCIAL FOREWORD

GENERAL FUND REVENUE EXPENDITURE 2011/12

Revised Budget £000's		Working Budget £000's	Actual Expenditure £000's	Variance £000's
66,409	Adult Social Care & Health	65,005	64,795	(210)
39,353	Children's Services & Learning	39,353	39,615	262
24,287	Environment & Transport	24,400	23,899	(501)
9,521	Housing	9,521	9,246	(275)
7,722	Leader's Portfolio	7,722	7,398	(324)
7,063	Leisure & Culture	7,135	7,293	158
44,588	Resources	46,537	45,685	(852)
198,943	Sub-total for Portfolios	199,673	197,931	(1,742)
25,806	Other Items	24,956	22,865	(2,091)
224,749	Portfolio Total	224,629	220,796	(3,833)
654	Levies & Contributions	654	685	31
(12,776)	Capital Asset Management	(12,776)	(12,905)	(129)
(20,436)	Other Expenditure & Income	(21,035)	(24,027)	(2,992)
192,191	NET GF SPENDING	191,472	184,549	(6,923)
(1,506)	Draw from Balances:	(787)	6,136	6,923
190,685	Budget Requirement	190,685	190,685	0

Portfolio Expenditure is analysed below by category to explain further where the money went.

	£000's
Salaries & Wages	90,285
Other Employee Costs	14,994
Premises Costs	11,576
Transportation Costs	3,827
Supplies & Services	96,614
Internal Charges	7,523
Other Direct Costs (Includes School Allocations)	213,485
Total Expenditure	438,304
Internal Income	(30,229)
Fees, Charges & Rents	(45,030)
Grants / Contributions	(165,114)
Total Net Expenditure	197,931

FINANCIAL FOREWORD

The summary of General Fund Revenue expenditure can no longer be directly reconciled to the Comprehensive Income and Expenditure Account due to the changes in format introduced in 2006/07. At this point, the Consolidated Revenue Account was replaced by the Income and Expenditure Account and the Statement of Movement on the General Fund Balance. Subsequently this has been superseded by the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement.

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

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

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

Housing Revenue Account Summary

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

- Compare actual spending to budget
- Explain the big differences
- Show where the money came from and where it went

Comparing Actual Spending to Budget

The net budget for the year was set at £0.5M surplus and the actual outturn for the year was a surplus of £1.0M which represents an under spend of £0.5M. The HRA working balance at 31 March 2012 is £2.6M.

Explaining the Big Differences

The major revenue variances are detailed below:

	£000's
Savings in Programme Repairs	(257)
Overspend in Responsive Repairs	85
Savings in Supervision and Management	(359)
Increase in Direct Revenue Financing	71
Reduction in Capital Financing Charges	(103)
Reduction in Rental Income	39
Other variances	(2)
	(526)

Where the Money Came From and Where the Money Went

The following chart provides an analysis of our main sources of income for the year and provides a high level summary of our net expenditure.

FINANCIAL FOREWORD

	Budget	Actual	Variance
	£000's	£000's	£000's
<u>Income</u>			
Dwelling Rents	60,962	60,889	73
Other Rents	1,218	1,252	(34)
Total Rental Income	62,180	62,141	39
Service Charge Income from Tenants	1,295	1,255	40
Service Charge Income from Leaseholders	642	644	(2)
Interest Received	26	47	(21)
Total Income	64,143	64,087	56
<u>Expenditure</u>			
Responsive Repairs	9,770	9,855	85
Programmed Repairs	5,189	4,932	(257)
Total Repairs	14,959	14,787	(172)
Rents Payable	53	62	9
Debt Management	52	50	(2)
Supervision & Management	18,181	17,822	(359)
Capital financing charges	2,998	2,895	(103)
Major Repairs Allowance	13,096	13,096	(0)
Direct Revenue Financing	6,813	6,884	71
Housing Subsidy paid to CLG	7,519	7,493	(26)
Total Expenditure	63,671	63,089	(582)
(SURPLUS)/DEFICIT FOR YEAR	(472)	(998)	(526)

The above summary of Housing Revenue Account expenditure, which reflects the Council's actual year end position of £0.5M under spent, can no longer be directly reconciled to the HRA Income and Expenditure Account due to the changes in format introduced in 2006/07. At this point the Income and Expenditure Account was replaced by the Comprehensive Income and Expenditure Account and the Statement of Movements on the HRA Balance.

CAPITAL

General Fund 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 and/or
- 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 £93.3M on capital projects. Our final capital spend for the year was £13.4M less than the budget at £79.9M.

The table below summarises the capital expenditure for the year:

FINANCIAL FOREWORD

	Budget £000's	Actual £000's	Variance £000's
Adult Social Care & Health	1,805	1,026	(779)
Children's Services & Learning	38,711	32,417	(6,294)
Environment & Transportation	20,786	17,282	(3,504)
Housing (General Fund)	2,226	2,175	(51)
Housing (Local Services & Community Safety)	1,377	1,162	(215)
Leader's	2,145	1,274	(871)
Leisure & Culture	14,598	14,602	4
Resources	11,677	9,978	(1,699)
Total General Fund	93,325	79,916	(13,409)

Explaining the Big Differences

The final spend for the year was £13.4M lower than the budget mainly due to slippage on schemes which will now be spent in 2012/13. Some of the major slippage was on the following schemes:

- Lordshill Academy £4.4M
- Mayfield Academy £0.4M
- Special School Estates £1.0M
- Accommodation Strategy £1.6M
- Replacement of Cremators £0.4M

Where the Money Came From

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

	£000's
Unsupported Borrowing	22,917
Capital Receipts	4,835
Capital Grants	43,611
Contributions	2,272
Direct Revenue Financing	6,281
Total	79,916

Housing Revenue Account (HRA) Capital Summary

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

- Improve our properties (including the decent homes and decent homes plus programmes)
- Build new property
- Improve the neighbourhoods surrounding the property
- Implement estate regeneration projects

Comparing Actual Spend to Budget

The budget for the year was to spend £23.5M on capital projects. Our final capital spend for the year was £1.4M less than budget at £22.1M. The table below summarises the capital expenditure for the year:

FINANCIAL FOREWORD

	Budget £000's	Actual £000's	Variance £000's
Modern Facilities	11,336	11,125	(211)
Safe Wind & Weather Tight	1,914	2,060	146
Well Maintained Communal Facilities	4,768	4,491	(277)
Warm & Energy Efficient	1,000	731	(269)
Estate Regeneration	2,539	2,010	(529)
New Build	1,919	1,706	(213)
TOTAL	23,476	22,123	(1,353)

Explaining the Big Differences

The final spend for the year was £1.4M lower than the budget mainly due to slippage on schemes which will now be spent in 2012/13. Some of the major slippage was on the following schemes:

- Decent Neighbourhoods - £0.4M
- Estate Regeneration - £0.4M
- LA New Build - £0.2M

Where the Money Came From

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

Capital Grants / Contributions	£000's 2,568
Direct Revenue Financing	6,459
Major Repairs Allowance	13,096
	22,123
HRA Self Financing*	73,847
Total	95,970

* In addition the authority applied to PWLB for loans totalling £73.8M to fund the HRA self financing buy-out. On 28 March 2012 the authority paid £73.8M to DCLG in full and final settlement.

Reserves and Balances Summary

We maintain a number of earmarked reserves. These are special reserves kept 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 2012 was £23.5M.

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 £6.1M to working balances in the year.

In the medium term it is forecast that general reserve will reduce from £23.5M to £5.0M which is the minimum level recommended by the Chief Financial Officer following a risk assessment of the required level to be maintained.

FINANCIAL FOREWORD

ACCOUNTING ISSUES AND DEVELOPMENTS

The adoption of FRS (Financial Reporting Standard) 30 Heritage Assets within the Financial Statements

Financial Reporting Standard (FRS) 30 'Heritage assets' applies to all heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities. The objective of this FRS is to ensure that:

- Enhanced disclosures apply to all heritage assets, regardless of whether they are reported in the balance sheet; and
- Where information is available on cost or value, heritage assets are reported in the balance sheet.

The FRS retains the recognition and measurement requirements set out in FRS 15 which require heritage assets to be reported as tangible fixed assets in the balance sheet where information is available on cost or valuation. There are, however, some relaxations to the measurement requirements of FRS 15 to encourage the reporting of heritage assets in the balance sheet at valuation.

The main features of this standard are as follows:

- The disclosures should apply to all entities that hold heritage assets, regardless of whether these assets are reported in the balance sheet. These disclosures will provide information about an entity's total holding of heritage assets and the entity's stewardship of these assets.
- The disclosures should make clear the accounting policies adopted for an entity's holding of heritage assets and the extent to which these assets are recognised in the balance sheet. The disclosures should provide readers with an understanding of the asset values being reported as well as the entity's policies for managing its total holding of heritage assets.
- The accounting in respect of the recognition and measurement of heritage assets should follow the requirements of FRS 15, as supplemented by the requirements of this standard.
- To encourage a valuation approach, the FRS allows entities to use internal valuations without the need for a full valuation every five years.

The Equal Pay Provision

As previously reported, the Council received a number of Equal Pay claims, and whilst accepting no liability, the Council made an Equal Pay Provision in the 2009/10 General Ledger to meet any liabilities, which may have arisen from the litigation process. This was treated as an exceptional item within the 2009/10 Income and Expenditure Account.

However, in accordance with paragraph 97 of Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets), the Council chose not to disclose the information that would usually be required to be shown within the Statement of Accounts in relation to the Equal Pay Provision. This was based on the advice of the Monitoring Officer that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation.

For the 2011/12 Financial Statements the Council is no longer relying on the provisions contained within Financial Reporting Standard 12 with respect to the above, and discloses the provision in full as treated in both the 2009/10 and 2010/11 Financial Statements, and has restated the Balance Sheets accordingly. (**See Prior Year Restatements Note 5 and Provisions Note 22**).

Housing Revenue Account (HRA) – Self Financing Settlement

From 01 April 2012 the current HRA subsidy system is being replaced with a devolved system of funding and responsibility, which also includes reforms to the financial, accounting and the regulatory framework.

On 26 March 2012, in preparation for the commencement of self-financing of the Housing Revenue Account (HRA), the Council applied to the PWLB (Public Works Loans Board) for loans totalling £73.8M.

FINANCIAL FOREWORD

On 28 March 2012 the Council paid £73.8M to the DCLG (Department for Communities and Local Government) in full and final settlement for the HRA Self Financing buy-out.

As required by LAAP (The Local Authority Accounting Panel) Bulletin 92 this payment has been included within the HRA Income and Expenditure Statement and the Comprehensive Income and Expenditure Statement.

Section 170(6) of the Localism Act 2011 sets out that the settlement payment transactions are deemed to be capital expenditure, therefore this expenditure has been reversed in the Movement in Reserves Statement (MIRS) to the Capital Adjustment Account.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

1. The Council's Responsibilities

The Council is required to:

Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council that Officer is the Head of Finance & IT.

Manage its affairs to secure economic, efficient use of resources and safeguard assets.

Approve Financial Statements.

2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Head of Finance & IT. The CFO is responsible for the preparation of the Council's Financial Statements which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing the Financial Statements the CFO 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 also has 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 Financial Statements presents the true and fair position of Southampton City Council at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Signed **A Lowe** _____ Date 25 September 2012

Head of Finance & IT and Chief Financial Officer

4. Approval of the Accounts

I certify that the Financial Statements have 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 **D Furnell** _____ Date 25 September 2012

Chair, Governance Committee.

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11			Notes	2011/12		
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>
£000's	£000's	£000's		£000's	£000's	£000's
28,837	(21,881)	6,956	Central Services to the Public	29,364	(22,393)	6,971
30,753	(11,750)	19,003	Cultural and Related Services	23,697	(7,285)	16,412
34,066	(13,681)	20,385	Environment and Regulatory Services	35,959	(15,499)	20,460
13,669	(3,639)	10,030	Planning and Development Services	9,376	(3,844)	5,532
250,533	(191,032)	59,501	Children's and Education Services	228,169	(167,918)	60,251
28,746	(16,019)	12,727	Highways and Transport Services	27,509	(16,280)	11,229
45,035	(63,668)	(18,633)	Local Authority Housing	55,881	(66,907)	(11,026)
224,049		224,049	Local Authority Housing-impairment loss on dwellings	6	24,508	24,508
		0	Local Authority Housing- Self Financing	6	73,847	73,847
123,112	(109,415)	13,697	Other Housing Services	125,430	(112,601)	12,829
90,648	(29,617)	61,031	Adult Social Care	86,794	(22,928)	63,866
5,561	(430)	5,131	Corporate and Democratic Core	5,237	(703)	4,534
3,947	(36)	3,911	Non Distributable Costs	8,474	(1,895)	6,579
		0	Exceptional Items	6		
(90,834)		(90,834)	Past Service Pension Costs			0
103,794		103,794	Impairment on Assets		6,722	6,722
		0	Equal Pay Provision (Reversal of Provision)	22	(5,746)	(5,746)
		0	Vat Refund - Fleming Cases		(4,046)	(4,046)
891,916	(461,168)	430,748	Cost of Services	8	735,221	(442,299)
		18,800	Loss / (Gain) on the disposal of Non Current Assets	13		39,624
		657	Contributions to Other Local Authorities	10		685
		1,408	Contributions of Housing Capital Receipts to Government Pool			1,319
		20,865	Other Operating Expenditure			41,628
		(5,619)	Income and Expenditure in relation to Investment Properties and changes in their fair value	15		737
		10,535	Interest payable and similar charges	12		14,345
		(1,839)	Interest and Investment Income	12		(2,822)
		13,400	Pensions Interest Costs & Expected Return on Assets			8,900
		16,477	Financing, and Investment Income & Expenditure			21,160
		(83,169)	Council Tax Income			(83,746)
		(87,437)	Non - Domestic Rates Redistribution			(80,097)
		(33,448)	General Government Grants	42		(46,894)
		(28,422)	Capital Grants and Contributions	42		(43,670)
		(232,476)	Taxation and Non-Specific Grant Income			(254,407)
		235,614	Deficit / (Surplus) on the Provision of Services			101,303
		(77,773)	Surplus or deficit on revaluation of non current assets	13		2,754
		(77)	Surplus or deficit on revaluation of available for sale financial assets			(49)
		(14,980)	Actuarial (gains) / losses on pension assets / liabilities			76,050
		0	Share of other Comprehensive Expenditure & Income of associates & joint ventures			0
		(92,830)	Other Comprehensive Income and Expenditure			78,755
		142,784	Total Comprehensive Income and Expenditure			180,058

THE FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance £'000s	Earmarked Reserves £'000s	Housing Revenue Account £'000s	Capital Receipts Reserve £'000s	Major Repairs Reserve £'000s	Capital Grants & Contributions Unapplied £'000s	Total Usable Reserve £'000s	Unusable Reserves £'000s	Total Authority Reserve £'000s
Balance at 1 April 2010	(19,849)	(23,171)	(1,589)	(1,074)	0	(9,115)	(54,798)	(1,110,174)	(1,164,972)
<u>Movement in Reserves during 2010/11</u>									
Surplus on provision of services (accounting basis)	32,270	0	203,344	0	0	0	235,614		235,614
Other Comprehensive Income and Expenditure	0						0	(92,830)	(92,830)
Total Comprehensive Income and Expenditure	32,270	0	203,344	0	0	0	235,614	(92,830)	142,784
Adjustments between accounting basis and funding basis under regulations (note 11)	(35,207)	0	(198,806)	333	0	(3,657)	(237,337)	237,344	7
Net Increase before Transfers to Earmarked Reserves	(2,937)	0	4,538	333	0	(3,657)	(1,723)	144,515	142,792
Transfers to / (from) earmarked reserves (note 9)	5,392	(1,419)	(4,572)	(1,000)	0	1,593	(6)	(2)	(8)
(Increase) / Decrease in Year	2,455	(1,419)	(34)	(667)	0	(2,064)	(1,729)	144,513	142,784
Balance at 31 March 2011	(17,394)	(24,590)	(1,623)	(1,741)	0	(11,179)	(56,527)	(965,661)	(1,022,188)

	General Fund Balance £'000s	Earmarked Reserves £'000s	Housing Revenue Account £'000s	Capital Receipts Reserve £'000s	Major Repairs Reserve £'000s	Capital Grants & Contributions Unapplied £'000s	Total Usable Reserve £'000s	Unusable Reserves £'000s	Total Authority Reserve £'000s
Balance at 1 April 2011	(17,394)	(24,590)	(1,623)	(1,741)	0	(11,179)	(56,527)	(965,661)	(1,022,188)
<u>Movement in Reserves during 2011/12</u>									
Surplus on provision of services (accounting basis)	11,129	0	90,174	0	0	0	101,303		101,303
Other Comprehensive Income and Expenditure	0						0	78,755	78,755
Total Comprehensive Income and Expenditure	11,129	0	90,174	0	0	0	101,303	78,755	180,058
Adjustments between accounting basis and funding basis under regulations (note 11)	(21,237)	0	(89,959)	(3,055)	0	(519)	(114,770)	114,775	5
Net Increase before Transfers to Earmarked Reserves	(10,108)	0	215	(3,055)	0	(519)	(13,467)	193,530	180,063
Transfers to / (from) earmarked reserves (note 9)	3,972	(4,397)	(1,213)	0	0	1,637	(1)	(4)	(5)
(Increase) / Decrease in Year	(6,136)	(4,397)	(998)	(3,055)	0	1,118	(13,468)	193,526	180,058
Balance at 31 March 2012	(23,530)	(28,987)	(2,621)	(4,796)	0	(10,061)	(69,995)	(772,135)	(842,130)

THE FINANCIAL STATEMENTS

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold and also includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

<u>01 April 2010</u>	<u>31 March 2011</u>		<u>Notes</u>	<u>31 March 2012</u>	
£000's	£000's			£000's	£000's
1,495,616	1,298,020	Property Plant & Equipment	13	1,273,606	
195,667	195,235	Heritage Assets	14	196,646	
133,567	130,625	Investment Property	15	123,812	
609	1,288	Intangible Assets	16	1,925	
6,412	6,489	Long Term Investments	17	3,478	
2,643	2,333	Long Term Debtors	19	2,001	
1,834,514	1,633,990	Long Term Assets			1,601,468
30,019	29,559	Short Term Investments	17	13,383	
0	0	Assets held for Sale	43	4,931	
1,340	1,050	Stock (Inventories)	18	799	
56,932	72,663	Short Term Debtors	19	54,089	
(12,864)	(12,720)	- Impairment of Short Term Debtors		(14,100)	
10,821	40,746	Cash & Cash Equivalents	20	52,474	
86,248	131,298	Current Assets			111,576
(5,689)	(13,499)	Cash & Cash Equivalents	20	(7,891)	
(51,078)	(49,311)	Short Term Borrowing	17	(34,560)	
(75,056)	(82,737)	Short Term Creditors	21	(63,529)	
(131,823)	(145,547)	Current Liabilities			(105,980)
(51,698)	(50,166)	Long Term Creditors	17	(51,466)	
(21,081)	(15,628)	Provisions	22	(7,674)	
(104,920)	(176,492)	Long Term Borrowing	17	(267,407)	
		Other Long Term Liabilities			
(19,188)	(18,420)	- Deferred Liabilities	17	(17,683)	
(58)	(41)	- Deferred Capital Balances		(19)	
(18,032)	(33,256)	- Cap. Grants & Conts Receipts in Advance	42	(36,165)	
(408,990)	(303,550)	- Pension Fund Liability	24 e)	(384,520)	
(623,967)	(597,553)	Long Term Liabilities			(764,934)
1,164,972	1,022,188	Net Assets			842,130
		Useable Reserves			
1,074	1,741	Useable Capital Receipts Reserve	11	4,796	
9,115	11,179	Cap. Grants & Conts Unapplied	11	10,061	
23,171	24,590	Earmarked Revenue Reserves	9	28,987	
		Revenue Balances			
19,849	17,394	General Fund	11	23,530	
1,589	1,623	Housing Revenue Account	11	2,621	
54,798	56,527				69,995
		Unuseable Reserves			
232,548	307,280	Revaluation Reserves	24 (a)	298,068	
346	423	Available-for-Sale Financial Instruments Reserve	24 (b)	472	
1,285,199	959,905	Capital Adjustment Account	24 (c)	859,401	
621	624	Financial Instruments Adjustment Account	24 (d)	(150)	
(408,990)	(303,550)	Pension Reserve	24 (e)	(384,520)	
3,467	3,499	Collection Fund Adjustment Account	24 (f)	1,415	
(3,017)	(2,520)	Accumulated Absences Account	24 (g)	(2,551)	
1,110,174	965,661				772,135
1,164,972	1,022,188				842,130

Signed: D Furnell _____ 25 September 2012

Chair, Governance Committee

THE FINANCIAL STATEMENTS

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

<u>2010/11</u> £000's Restated		Notes	<u>2011/12</u> £000's
(235,614)	Net surplus or (deficit) on the provision of services		(101,303)
292,957	Adjustment to surplus or deficit on the provision of services for non cash movements	25(a)	112,715
<u>(49,424)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25(a)	<u>(56,797)</u>
7,919	Net Cash flows from operating activities		(45,385)
(41,978)	Net Cash flows from Investing Activities	25(c)	(24,596)
56,174	Net Cash flows from Financing Activities	25(d)	87,317
<u>22,115</u>	Net increase or decrease in cash and cash equivalents		<u>17,336</u>
5,132	Cash and cash equivalents at the beginning of the reporting period	25(e)	27,247
<u><u>27,247</u></u>	Cash and cash equivalents at the end of the reporting period	25(e)	<u><u>44,583</u></u>

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Financial Statements summarise the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Financial Statement by the Accounts and Audit Regulations 2012 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice for Local Authorities 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

b) Accruals of Income and Expenditure

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

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

c) Acquisitions and Discontinued Operations

Transactions relating to Acquired and Discontinued Operations are separately disclosed within the Comprehensive Income and Expenditure Statement and the Balance Sheet including comparatives as required by the Code of Practice. There were no acquisitions or discontinued operations in 2011/12.

d) Cash and Cash Equivalents

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

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

e) Exceptional Items

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

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

g) **Charges to Revenue for Non-Current Assets**

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

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

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

h) **Employee Benefits**

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In

NOTES TO THE CORE FINANCIAL STATEMENTS

the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

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

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

Both schemes provided 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 ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

As part of the Council's Strategic Services Partnership contract, Capita has admitted body status within the Hampshire pension fund. The staff that transferred to Capita are treated as being part of Southampton City Council (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 is 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 is 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 SCC actual pension fund contributions for 2011/12 will be excluded from SCC's accounts, and will be a reconciling item in the Movement in Reserves Statement.
- The accounts will therefore reflect the full IAS19 position of the Council 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 credit 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

NOTES TO THE CORE FINANCIAL STATEMENTS

- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code.
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value

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

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
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 Surplus or Deficit in the Comprehensive Income and Expenditure Statement 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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
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 or credited to Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement 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 – charged to the Pensions Reserve.
7. Contributions paid to Hampshire County Council – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Council by £384.5M in 2011/12 and by £303.5M in 2010/11.

The total liability of £384.5M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see **Note 39**.

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 in which the liability arises to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

NOTES TO THE CORE FINANCIAL STATEMENTS

i) Events After the Balance Sheet date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. For Southampton City Council this date has been determined as the 29 June 2012.

j) Financial instruments

Financial Liabilities

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of amortising to revenue the premium over the lifetime of either the repaid loan or any replacement loan, whichever is greater. Discounts must be amortised over the lesser of the remaining lifetime of the repaid loan or 10 years.

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

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

Financial Assets

Financial assets are classified into two types:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Loans and Receivables

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

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

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

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 Comprehensive Income and Expenditure Statement.

Southampton City Council grants the following types of soft loans:

- Car and Cycle Loans
- Season Ticket Loans
- Welfare Loans

The Council also provides **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 Revenue Expenditure funded from Capital under Statute. The loans are interest free and only become repayable when the property is sold. As these loans are treated as capital expenditure, no debtor is held in the Balance Sheet and as the period of the loan is unknown, they have not been accounted for under the Soft Loan provisions.

Available for Sale Assets

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

k) Foreign Currency Transaction

The Council does not undertake any material foreign currency transactions.

l) Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

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

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

m) Heritage Assets

Tangible and Intangible Assets (described in this summary of significant accounting policies as heritage assets)

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

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

No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.

- **Works of Art** - The art collection includes paintings (both oil and watercolour), sketches, and sculptures, is designated (i.e. officially recognised as being significant) and numbers approximately 3,500 items most of which have been acquired through donation.

The collection has been brought onto the balance sheet based on insurance values.

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

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is due to the diverse nature of the assets held and lack of comparable market values. Consequently the Council does not recognise these assets on the balance sheet.

- **Local and Maritime Collections** - Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are 200-300,000 items in the collections. About 10% of these items are on databases or spread sheets, the rest are still on paper records.

No meaningful value can be ascribed to these items consequently the Council does not recognise these assets on the balance sheet.

- **Historic Buildings and Ancient Monuments** - The Council has a number of Historic Buildings/Structures including:

- The Tudor House Museum;
- Gods House Tower;
- The Bargate
- The Wool House;
- Tudor Merchants Hall; and
- Town Walls and various Vaults

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

Valuation

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

NOTES TO THE CORE FINANCIAL STATEMENTS

n) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

o) Interests in Companies and Other Entities

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

In 2011/12 there were no relationships which would require the Council to produce Group Accounts.

p) Inventories and Long-Term Contracts

Where possible, inventories are included in the Balance Sheet at the lower of cost, or net realisable value. There are two notable exceptions to this rule in the accounts:

- The Council's Central Stores stock has been valued on an "Average Cost" basis.
- 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.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

q) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

r) **Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

s) **Leases**

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General

NOTES TO THE CORE FINANCIAL STATEMENTS

Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

t) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and

NOTES TO THE CORE FINANCIAL STATEMENTS

support services are shared between users in proportion to the benefits received, with the exception of:

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

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

u) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

- Infrastructure, and community assets – depreciated historical cost
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- Assets under construction historic cost
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

When decreases in value are identified, they are accounted for by:

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

Amounts received for a disposal 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 Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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 General Fund Balance in the Movement in Reserves Statement.

v) Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement

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- Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

w) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provision for Back Pay Arising from Unequal Pay Claims

The Council received a number of Equal Pay claims and made a provision in the 2009/10 Accounts to meet any liabilities arising from the litigation process. It is important to note at this juncture that the Council has applied in full the Equal Pay Capitalisation Direction, in accordance with section 16(2)(b) of the Local Authorities Capital finance and Accounting Regulations 2003 enabling any Expenditure on Equal Pay Claims to be treated as Capital Expenditure. This means that the impact on the Comprehensive Income and Expenditure Statement in 2009/10 was neutralised by a movement within the Statement of Movement on the General Fund Balance i.e. there was no impact on the Council's retained surplus for the year of £4.5M.

However, in accordance with paragraph 97 of Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets), the Council chose not to disclose the information usually required to be shown within the Statement of Accounts in relation to the Equal Pay Provision in both 2009/10 and 2010/11. This was based on the advice of the Monitoring Officer that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation.

The Council no longer requires relying on the above and has disclosed the provision in full including a restatement of the prior year's Balance Sheet.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

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As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

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

x) Reserves

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

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

y) Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

z) Value Added tax

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.

The Council followed the HMRC guidance to manage the change in the standard rate of VAT (4 January 2011) from 17.5% to 20%, ensuring that VAT continued to be correctly accounted for.

aa) Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a ten year strategic services partnership contract with Capita. The contract, which involved the TUPE transfer of approximately 650 employees to Capita, delivers a

NOTES TO THE CORE FINANCIAL STATEMENTS

wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

As part of the contract the majority of the Council's IT assets transferred in ownership to Capita. The contract charges from Capita take account of the fact that we have donated the assets to the contract, i.e. the contract charges would have been higher if we had not donated the assets or if we had charged an amount for them.

The contract did not state what this reduction in charges was. Neither was it possible to estimate the open market value of the assets. Therefore, as the IT assets held on the Balance Sheet had been originally recognised at cost and were being depreciated over short lives relevant to the nature of the assets, the Net Book Value (NBV) (£3.2M) was deemed to be a reasonable approximation to the fair value. The transferred assets have been written out of the Balance Sheet.

A balance for Deferred Consideration (within Long Term Debtors) has been established with the 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 Comprehensive Income and Expenditure Statement. This is then reversed out through the Movement in Reserves Statement.

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

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

ab) Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council tax and national non-domestic rates (NNDR). The fund's key features relevant to accounting for Council tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- Up to 2010/11 the SORP required the Council Tax income included in the Comprehensive Income and Expenditure Statement to be that which under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

- Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers and
- Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

NOTES TO THE CORE FINANCIAL STATEMENTS

ac) Accounting for the costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used) a liability and expense is recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services.

ad) 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. For details of the Trust Fund see Trust and Other Funds section.

2. Accounting Standards that have been issued but have not yet been adopted

The adoption as of 1 April 2012 of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the Code will result in a change of accounting policy that requires disclosure in line with paragraph 3.3.4.3 of the Code.

The amendments were issued as part of the IASB's (International Accounting Standards Board) response to the global financial crisis.

The IASB was informed by users of financial statements and others that enhanced disclosures about fair value measurements were required, especially in the light of the present market conditions. The IASB acknowledged that enhanced disclosures were needed to provide users of financial statements with useful information about valuations, methodologies and the uncertainty associated with fair value measurements.

Moreover, the amendments clarify and enhance existing disclosure requirements about the nature and extent of liquidity risk arising from financial instruments. These clarifications address application issues raised by preparers and auditors. Enhanced disclosure requirements result in disclosures that better enable users to evaluate an entity's exposure to liquidity risk arising from financial instruments and how the entity manages this risk.

It is unlikely to have a material impact on Southampton City Council's Financial Statements given the nature and extent of our current Financial Instruments.

3. Critical Judgements in applying Accounting Policies

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

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

Heritage Assets – The Council has reclassified Property, Plant and Equipment as Heritage Assets where the assets were held and maintained principally for their contribution to knowledge and culture. In addition, the Council has identified and included a number of collections, principally held at museums, as heritage assets.

Asset reclassifications – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.

Lease classifications – The Council has made judgements on whether lease arrangements are finance or operating leases e.g. the treatment of all property ground rents as operating leases. These

NOTES TO THE CORE FINANCIAL STATEMENTS

judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision has been made. The accounting treatment for finance and operating leases is significantly different (see Accounting Policies on Leases) and could have a significant effect on the Financial Statements.

PFI and Similar Contracts – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.

Contractual arrangements – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

Future funding for local government - There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Providing for potential liabilities – The Council has made judgements about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.

Doubtful debts allowances – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain.

Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council’s Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.9M if the useful lives was reduced by one year.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension

NOTES TO THE CORE FINANCIAL STATEMENTS

	rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	liability of £70.5M. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £7.9M as a result of estimates being corrected as a result of experience and increased by £57.0M attributable to updating of the assumptions.
Arrears	At 31 March 2012, the Council had a balance of sundry debtors of £14.6M. Included in this balance is approximately £4.4M of Capital Contributions. The current level of impairment allowance, based on previous experience, is £2.3M – which represents 22% of the balance excluding the Capital Contributions.	If collection rates were to deteriorate, increasing our impairment rate to 50% of the balance excluding the Capital Contributions it would require an additional £2.8M to set aside as an allowance.

5. Prior Period Adjustment

The impact of the adoption of FRS (Financial Reporting Standard) 30 Heritage Assets on the Council's Financial Statements

The adoption of FRS 30 Heritage Assets, which is a change in accounting policy, requires the Council to restate the previous year's Balance Sheet and Comprehensive Income and Expenditure Account for the impact of including Heritage Assets on the Balance Sheet as if they had always been accounted for on this basis.

As required by the Code of Practice the Balance Sheets as at 1 April 2010 and 31 March 2011 have been restated.

There is no discernable impact on the prior years Comprehensive Income and Expenditure Account as, noted in our Accounting Policy, the only Heritage Assets brought onto the Balance Sheet are the Works of Art which are considered to have an infinite life and the reclassification of some Historic Buildings and Ancient Monuments from Property, Plant and Equipment to Heritage Assets including:

- The Tudor House Museum;
- Gods House Tower;
- The Bargate;
- The Wool House;
- Tudor Merchants Hall; and
- Town Walls and various Vaults

The art collection includes paintings (both oil and watercolour), sketches, and sculptures, is designated i.e. officially recognised as being significant, and numbers approximately 3,500 items most of which have been acquired through donation.

The Art Collection was valued a few years ago, for insurance purposes, at approximately £190M which is the value that they have been recognised in the Balance Sheet i.e. debited Heritage Assets and credited the Revaluation Reserve/(CAA) as required by the Code of Practice.

Balance Sheet Impact:

NOTES TO THE CORE FINANCIAL STATEMENTS

Property, Plant & Equipment (PP&E)	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	1,501,283	1,303,255
Reclassification to Heritage Assets		
- Cost	(4,860)	(5,869)
- Additions	(1,009)	(2,665)
- Revaluations		3,193
- Depreciation	400	106
Restated Balance	<u>1,495,814</u>	<u>1,298,020</u>
PP&E Note 14 to the Core Financial Statements	1 April 2010	31 March 2011
	£000's	£000's
Other Land & Buildings		
Balance 2010/11 Accounts	669,044	651,144
Reclassification to Heritage Assets		
- Cost	(4,860)	(5,869)
- Additions	(1,009)	(2,665)
- Revaluations		3,193
- Depreciation	400	106
Restated Balance	<u>663,575</u>	<u>645,909</u>

Heritage Assets	1 April 2010	31 March 2011
	£000's	£000's
Reclassification from PP&E		
- Cost	4,860	5,869
- Additions	1,009	2,665
- Revaluations		(3,193)
- Depreciation	(400)	(106)
Works of Art (Insurance Value)	190,000	190,000
Restated Balance	<u>195,469</u>	<u>195,235</u>
Revaluation Reserve	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	42,548	117,280
Works of Art (Insurance Value)	190,000	190,000
Restated Balance	<u>232,548</u>	<u>307,280</u>

The impact of fully disclosing the Equal Pay Provision previously redacted in the 2009/10 and 2010/11 Financial Statements

The Council raised a £12M Equal Pay Provision in the 2009/10 Financial Statements which was not fully disclosed in either the 2009/10 or the 2010/11 Financial Statements on the grounds that the Monitoring Officer felt that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation (See table below for Balance Sheet Impact).

The £12M Capitalisation Direction received was fully utilised in 2009/10, financing the Equal Pay provision over the maximum period allowed of 20 years. Although the Equal Pay provision was redacted from the 2009/10 and the 2010/11 Financial Statements, the Minimum Revenue Provision

NOTES TO THE CORE FINANCIAL STATEMENTS

was calculated having taken into account the capital financing requirement arising from the capitalisation direction (See also exceptional items below).

Change in the CIPFA Service Reporting Code of Practice (SeRCOP) 2011/12

The 2011/12 SeRCOP required Cultural, Environmental and Planning Services within the Comprehensive Income and Expenditure Statement to be analysed between:

- Cultural and Related Services;
- Environmental and Regulatory Services; and
- Planning and Development Services

Comparatives figures have also been restated. In addition, £2.6M of redundancy payments, incorrectly included in Non Distributable Costs, have been appropriately reallocated to Service Areas see table below:

	2010/11 <u>Accounts</u>		<u>Expenditure</u>	2010/11 <u>Restated</u>	
	<u>Expenditure</u>	<u>Adjustments</u>		<u>Expenditure</u>	<u>Income</u>
	£000's	£000's	£000's	£000's	£000's
Central Services to the Public	28,809	28	28,837	(21,881)	6,956
Cultural and Related Services	77,809	30,753	30,753	(11,750)	19,003
Environment and Regulatory Services		(43,743)	34,066	(13,681)	20,385
Planning Services		13,669	13,669	(3,639)	10,030
Children's and Education Services	249,425	1,108	250,533	(191,032)	59,501
Highways and Transport Services	28,693	53	28,746	(16,019)	12,727
Local Authority Housing	269,084	(224,049)	45,035	(63,668)	(18,633)
Local Authority Housing-impairment loss on dwellings		224,049	224,049	-	224,049
Other Housing Services	122,948	164	123,112	(109,415)	13,697
Adult Social Care	90,250	398	90,648	(29,617)	61,031
Corporate and Democratic Core	5,408	153	5,561	(430)	5,131
Non Distributable Costs	6,530	(2,583)	3,947	(36)	3,911
Exceptional Items					
Past Service Pension Costs	(90,834)		(90,834)		(90,834)
Impairment on Assets	103,794		103,794		103,794
Cost of Services	891,916	0	891,916	(461,168)	430,748

Other Reclassifications and Restatements

In addition, to the above changes, the Council have identified additional balances that were misclassified in the previous year's Financial Statements:

- The Transformation Reserve was incorrectly classified as a Short term creditor (£280,000 2009/10 and £965,000 2011/12). This has been reclassified as an Earmarked Reserve.
- Earmarked Revenue Reserves incorrectly included £862,000 2011/12 of Short term creditors.
- Capital Grants and Contributions Receipts in advance incorrectly included £61,000 of Earmarked Revenue Reserves (General Fund Contributions to Capital) for both 2009/10 and 2011/12.
- Capital Grants and Contributions Unapplied incorrectly included £605,000 of Earmarked Revenue Reserves (General Fund Contributions to Capital) for both 2009/10 and 2010/11.

The impact on the Comprehensive Income and Expenditure Statement (CI&ES) comparatives of the above changes is to reduce Capital Grants and Contributions income by £177,000 to £28.4M increasing the total deficit on the CI&ES from £142.6M to £142.8M. The comparative Cash Flow figures have also been appropriately amended.

NOTES TO THE CORE FINANCIAL STATEMENTS

The impact on the Balance Sheet of fully disclosing the Equal Pay Provision and the Other Reclassifications and Restatements is summarised in the Table below:

Provisions	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	9,081	9,081
Equal Pay	12,000	6,547
Restated Balance	<u>21,081</u>	<u>15,628</u>
Short Term Creditors	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	75,336	77,387
Equal Pay		5,453
Earmarked Revenue Reserves		862
Transformation Reserve (Revenue Reserves)	(280)	(965)
Restated Balance	<u>75,056</u>	<u>82,737</u>
Cap Grants & Contri Receipts in Advance	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	18,093	33,317
Revenue Reserves	(61)	(61)
Restated Balance	<u>18,032</u>	<u>33,256</u>
Capital Adjustment Account	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	1,297,199	971,905
Equal Pay Capitalisation	(12,000)	(12,000)
Restated Balance	<u>1,285,199</u>	<u>959,905</u>
Cap. Grants & Contri Unapplied	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	9,720	11,784
Revenue Reserves	(605)	(605)
	<u>9,115</u>	<u>11,179</u>
Earmarked Revenue Reserves	1 April 2010	31 March 2011
	£000's	£000's
Balance 2010/11 Accounts	22,225	23,821
Short Term Creditors		(862)
Transformation Reserve (Revenue Reserves)	280	965
Capital Grants and Contributions in advance	61	61
Cap. Grants & Contri Unapplied	605	605
Restated Balance	<u>23,171</u>	<u>24,590</u>

Cash Flow Statement

The Cash Flow comparatives figures have been amended as follows:

	2010/11	Adjustments	2010/11
	£000's	£000's	Restated
			£000's
Net surplus or (deficit) on the provision of services	(235,437)	(177)	(235,614)
Adjustments to surplus or deficit on the provision of services for noncash movements	625,270	(332,313)	292,957
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(381,914)	332,490	(49,424)
Net Cash flows from operating activities	<u>7,919</u>	<u>0</u>	<u>7,919</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

In addition, to the £177,000 CI&ES effect of Other Reclassifications and Restatements above, the Cash Flow adjustment lines incorrectly included proceeds of short term investments (£332.5M) which are already included in the investing activities section of the cash flow statement.

6. Exceptional Items

VAT Fleming Case Refund

The Council, following the House of Lords judgment in respect of Michael Fleming (which prevented HM Revenue Customs enforcing regulations which would illegally limit VAT Reclaims to the three previous years) submitted a number of "Fleming" claims most of which were settled in the 2009/10 year.

During 2011/12 the Council received notifications of further settlements in respect of Trade Waste and Sports Services "Fleming" claims of approximately £4.0M. As these claims relate to periods prior to 1 April 2011 they have been disclosed as an Exceptional Item within the Net Cost of Services within the Comprehensive Income and Expenditure Statement.

Equal Pay Provision

As noted previously the Council raised an Equal Pay Provision of £12M and received a Capitalisation Direction in the 2009/10 Financial Statements. A review of payments and existing claims indicated a required carried forward provision of approximately £0.3M, therefore £5.7M has been reversed and treated as an exceptional item within the 2011/12 Comprehensive Income and Expenditure Account. This has been subsequently transferred into the Capital Adjustment Account through the MIRS as the original provision was capitalised.

Revaluation of Property Plant and Equipment

As noted in the 2010/11 Financial Statements the Council disclosed as exceptional the £327.4M downward revaluation of a number of properties, of which £103.8M related to the General Fund and £223.6M to the HRA. For consistency the 2011/12 downward revaluations have also been separately disclosed for both the HRA £24.1M and the General Fund £6.7M.

Housing Revenue Account (HRA) Self Financing buy-out

The Council paid £73.8M to the DCLG (Department for Communities and Local Government) in full and final settlement for the HRA Self Financing buy-out.

Section 170(6) of the Localism Act 2011 sets out that the settlement payment transactions are deemed to be capital expenditure, therefore this expenditure has been reversed in the Movement in Reserves Statement (MIRS) to the Capital Adjustment Account.

7. Events after the Reporting Period

The Financial Statements were authorised for issue by the Head of Finance on 25 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

ROMANSE-CCTV Partnership

On 9 May 2012 Southampton City Council entered into an £800,000 annual contract with Balfour Beatty Living Places Limited to provide the City's Intelligent Transport System (ROMANSE) and Public Safety CCTV services for 10 years with effect from 1 October 2012.

8. Amounts Reported for Resource Allocation Decisions

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

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice 2011/12. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed by Service Portfolios. These reports are prepared on a different basis in particular:

NOTES TO THE CORE FINANCIAL STATEMENTS

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12 Reconciliation	Adult Social Care & Health	Childrens Services & Learning	Environment & Transport	Housing General Fund	Leader's Portfolio	Leisure & Culture	Resources	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(9,700)	(13,819)	(18,643)	(4,950)	(2,109)	(2,309)	(23,730)	(75,260)	(7,001)	(82,261)	(64,087)	(146,348)
Government Grants & Contributions	(10,961)	(147,817)	(3,595)	(168)	(1,761)	(371)	(441)	(165,114)		(165,114)		(165,114)
Total Income	(20,661)	(161,636)	(22,238)	(5,118)	(3,870)	(2,680)	(24,171)	(240,374)	(7,001)	(247,375)	(64,087)	(311,462)
Employee Expenses	19,734	31,911	12,376	8,032	7,600	5,566	20,060	105,279	771	106,050	7,983	114,033
Other Operating Expenses	65,442	168,725	30,469	4,717	3,307	3,977	48,866	325,503	4,436	329,939	51,166	381,105
Internal Charges	280	615	3,293	1,615	360	430	930	7,523	1,628	9,151	3,940	13,091
Total Operating Expenses	85,456	201,251	46,138	14,364	11,267	9,973	69,856	438,305	6,835	445,140	63,089	508,229
Net Controllable Cost	64,795	39,615	23,900	9,246	7,397	7,293	45,685	197,931	(166)	197,765	(998)	196,767
Net Non Controllable Costs	6,399	25,306	11,390	741	1,749	5,185	(27,739)	23,031		23,031		23,031
Total Portfolio Cost	71,194	64,921	35,290	9,987	9,146	12,478	17,946	220,962	(166)	220,796	(998)	219,798

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

£000's

Total Service Analysis Cost

219,798

Add Services Not Included in Main Analysis

(916)

Add Amounts Reported to Management Outside Services

(29,195)

Add Amounts Not Reported to Management

73,821

Remove Amounts Reported to Management Not Included in Comprehensive Income and Expenditure Statement

29,414

Net Cost of Services in Comprehensive Income and Expenditure Statement

292,922

Reconciliation to Subjective Analysis

	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Comprehensive Income and Expenditure Statement	Net Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(146,348)	(2,352)	(5,386)		7,133	(146,953)		(146,953)
Government Grants & Contributions	(165,114)	(122,942)	(22,136)	(7,290)	22,136	(295,346)	(90,564)	(385,910)
Interest and Investment Income			(1,510)		1,510	0	(2,822)	(2,822)
Income From Council Tax						0	(83,746)	(83,746)
NNDR Redistribution						0	(80,097)	(80,097)
Total Income	(311,462)	(125,294)	(29,032)	(7,290)	30,779	(442,299)	(257,229)	(699,528)
Employee Expenses		114,033		(8,572)		105,461	8,900	114,361
Other Operating Expenses		381,105	124,378		(3,107)	559,562		559,562
Internal Charges		13,091		(740)		12,351		12,351
Depreciation, Amortisation and Impairment			(25,077)	56,268	25,077	56,268		56,268
Investment Properties						0	737	737
Interest Payable and Similar Charges			13,682		(13,682)	0	14,345	14,345
Other Miscellaneous Items			4,411		(2,832)	1,579		1,579
Draw from Balances			6,136		(6,136)	0		0
Precepts & Levies			685		(685)	0	685	685
Payments to Housing Capital Receipts Pool						0	1,319	1,319
Loss / (Gain) on Disposal of Fixed Assets						0	39,624	39,624
Total Operating Expenses	508,229	124,378	(163)	104,142	(1,365)	735,221	65,610	800,831
Net Non Controllable Costs		23,031		(23,031)		0		0
Surplus / Deficit on the Provision of Services	219,798	(916)	(29,195)	73,821	29,414	292,922	(191,619)	101,303

NOTES TO THE CORE FINANCIAL STATEMENTS

2010/11 Reconciliation	Adult Social Care & Health	Childrens Services & Learning	Environment & Transport	Housing General Fund	Leader's Portfolio	Leisure, Culture & Heritage	Local Services & Community Safety	Resources & Workforce Planning	Sub-Total Trading Areas Portfolios	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(9,717)	(15,524)	(19,162)	(1,550)	(2,136)	(4,286)	(3,810)	(24,878)	(81,063)	(7,282)	(88,345)	(148,371)
Government Grants & Contributions	(28,817)	(169,931)	(4,709)	(409)	(936)	(766)	(1,103)	(3,023)	(209,694)	(209,694)	(60,026)	(209,694)
Total Income	(38,534)	(185,455)	(23,871)	(1,959)	(3,072)	(5,052)	(4,913)	(27,901)	(290,757)	(7,282)	(298,039)	(358,065)
Employee Expenses	22,419	36,992	16,101	2,677	7,603	8,053	8,151	16,110	118,106	1,555	119,661	128,230
Other Operating Expenses	67,060	179,595	29,458	597	1,932	4,879	7,378	50,699	341,598	5,665	347,263	395,338
Internal Charges	132	388	2,437	297	213	534	442	1,200	5,643	18	5,661	9,009
Total Operating Expenses	89,611	216,975	47,996	3,571	9,748	13,466	15,971	68,009	465,347	7,238	472,585	532,577
Net Controllable Cost	51,077	31,520	24,125	1,612	6,676	8,414	11,058	40,108	174,590	(44)	174,546	174,512
Net Non Controllable Costs	6,398	25,166	10,559	1,339	993	6,514	(757)	(28,296)	21,916		21,916	21,916
Total Portfolio Cost	57,475	56,686	34,684	2,951	7,669	14,928	10,301	11,812	196,506	(44)	196,462	196,428

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

£000's

Total Service Analysis Cost

196,428

Add Services Not Included in Main Analysis

(1,150)

Add Amounts Reported to Management Outside Services

(12,043)

Add Amounts Not Reported to Management

215,222

Remove Amounts Reported to Management Not Included in Comprehensive Income and Expenditure Statement

32,291

Net Cost of Services in Comprehensive Income and Expenditure Statement

430,748

Reconciliation to Subjective Analysis

	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Comprehensive Income and Expenditure Statement	Net Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(148,371)	(2,778)	(952)		6,883	(145,218)		(145,218)
Government Grants & Contributions	(209,694)	(116,067)		(5,651)	15,462	(315,950)	(61,870)	(377,820)
Interest and Investment Income			(837)		837	0	(1,839)	(1,839)
Income From Council Tax						0	(83,169)	(83,169)
NDR Redistribution						0	(87,437)	(87,437)
Total Income	(358,065)	(118,845)	(1,789)	(5,651)	23,182	(461,168)	(234,315)	(695,483)
Employee Expenses		128,230		(103,861)		24,369	13,400	37,769
Other Operating Expenses		395,338	117,695	(1,800)	(2,631)	508,602		508,602
Internal Charges		9,009		(1,065)		7,944		7,944
Depreciation, Amortisation and Impairment			(23,992)	349,515	23,992	349,515		349,515
Investment Properties						0	(5,619)	(5,619)
Interest Payable and Similar Charges			10,125		(10,125)	0	10,535	10,535
Other Miscellaneous Items			4,712		(3,226)	1,486		1,486
Draw from Balances			(1,756)		1,756	0		0
Precepts & Levies			657		(657)	0	657	657
Payments to Housing Capital Receipts Pool						0	1,408	1,408
Loss / (Gain) on Disposal of Fixed Assets						0	18,800	18,800
Total Operating Expenses		532,577	117,695	(10,254)	242,789	9,109	891,916	931,097
Net Non Controllable Costs		21,916		(21,916)		0		0
Surplus / Deficit on the Provision of Services		196,428	(1,150)	(12,043)	215,222	32,291	430,748	(195,134)

NOTES TO THE CORE FINANCIAL STATEMENTS

9. Transfers to/(from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

	<u>Balance</u>	<u>Transfers</u>	<u>Transfers</u>	<u>Balance</u>	<u>Transfers</u>	<u>Transfers</u>	<u>Balance</u>
	<u>01 April 2010</u>	<u>Out</u>	<u>In</u>	<u>31 March</u>	<u>Out</u>	<u>In</u>	<u>31 March</u>
	<u>£000's</u>	<u>2010/11</u>	<u>2010/11</u>	<u>2011</u>	<u>2011/12</u>	<u>2011/12</u>	<u>2012</u>
		<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Earmarked Reserves							
General Fund							
PFI Sinking Fund	4,514		34	4,548		30	4,578
SCC External Investments	34			34			34
Pay Reserve	0			0		250	250
On Street Parking	2,132	(273)		1,859	(346)		1,513
Transport Repairs Reserve	116	(13)		103	(26)		77
Interest Equalisation Reserve	1,500			1,500		563	2,063
Transformation	280		685	965		535	1,500
Cremator Replacement	323		40	363		193	556
General Fund Contributions to Capital	666		3,510	4,176	(445)		3,731
	<u>9,565</u>	<u>(286)</u>	<u>4,269</u>	<u>13,548</u>	<u>(817)</u>	<u>1,571</u>	<u>14,302</u>
HRA							
Housing Act Advances	17			17			17
Housing Revenue Contributions to Capital	6,283	(3,980)		2,303		425	2,728
	<u>6,300</u>	<u>(3,980)</u>	<u>0</u>	<u>2,320</u>	<u>0</u>	<u>425</u>	<u>2,745</u>
Schools							
School Balances	7,306		1,416	8,722		3,218	11,940
	<u>23,171</u>	<u>(4,266)</u>	<u>5,685</u>	<u>24,590</u>	<u>(817)</u>	<u>5,214</u>	<u>28,987</u>

10. Other Operating Expenditure

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

<u>2010/11</u>		<u>2011/12</u>
<u>£000's</u>		<u>£000's</u>
46	Southern Seas Fisheries	31
568	Coroners Services	612
43	Flood Defence	42
<u>657</u>		<u>685</u>

11. Adjustments Between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 April 2011	(17,394)	(24,590)	(1,623)	(1,741)	0	(11,179)	(56,527)	(965,661)	(1,022,188)
Movement in Reserves during 2011/12									
Surplus or (deficit) on Provision of Services	11,129		90,174		0	0	101,303		101,303
Other Comprehensive Income and Expenditure									
Surplus or deficit on revaluation of non current assets							0	2,754	2,754
Surplus or deficit on revaluation of available for sale financial assets								(49)	(49)
Impairment losses (chargeable to the Revaluation Reserve)							0	0	0
Actuarial (gains) / losses on pension assets / liabilities							0	76,050	76,050
Total Comprehensive Income and Expenditure	11,129	0	90,174	0	0	0	101,303	78,755	180,058
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(308)						(308)	308	0
Depreciation and Impairment of Fixed Assets	(31,439)		(24,508)				(55,947)	55,947	0
Revaluation Losses on Property Plant and	0						0	0	0
Movement on Market Value of Investment	(4,625)		(138)				(4,763)	4,763	0
PYA - Reversal of HRA Properties 08/09							0	0	0
Assets Transferred to CAPITA	(313)						(313)	313	0
Capital Grants and Contributions Applied	45,883		2,568				48,451	(48,451)	0
Capital Grants and Contributions Unapplied	519					(519)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(4,391)						(4,391)	4,391	0
Short-term Accumulating Compensated Absences	(31)						(31)	31	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(733)						(733)	733	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(25,596)		(2,584)				(28,180)	28,180	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	21,127		2,133				23,260	(23,260)	0
HRA Self Financing			(73,847)				(73,847)	73,847	0
Capitalisation Directive	4,591						4,591	(4,591)	0
Statutory Provision for the Financing of Capital Investment	10,825						10,825	(10,825)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,319)			1,319			0	0	0
Capital expenditure charged in-year to the General Fund Balance	6,281		6,459				12,740	(12,740)	0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	(2,084)						(2,084)	2,084	0
Transfers to/(from) Major Repairs Reserve			(68)		68		0		0
Major Repairs Allowance					(13,164)		(13,164)	13,164	0
Financing of HRA Assets					13,096		13,096	(13,096)	0
Removal of HRA Effective Interest Rate Calculation			43				43	(43)	0
Amortisation of Item 8 Discount			(84)				(84)	84	0
Net (loss) / gain on sale of Fxed Assets	(39,557)						(39,557)		(39,557)
Capital Receipts not matched by Disposal of Assets	(67)		67				0		0
Capital Receipts in Year				(9,209)			(9,209)	0	(9,209)
Non-current Asset Disposals								48,771	48,771
Capital Receipts Financing of New Capital Expenditure				4,835			4,835	(4,835)	0
							0	0	0
	(21,237)	0	(89,959)	(3,055)	0	(519)	(114,770)	114,775	5
Net Increase/Decrease before Transfers to Earmarked Reserves	(10,108)	0	215	(3,055)	0	(519)	(13,467)	193,530	180,063
Transfers to/(from) Earmarked Reserves (Note 9)	3,972	(4,397)	(1,213)	0	0	1,637	(1)	(4)	(5)
(Increase)/Decrease movement in Year	(6,136)	(4,397)	(998)	(3,055)	0	1,118	(13,468)	193,526	180,058
Balance at 31 March 2012	(23,530)	(28,987)	(2,621)	(4,796)	0	(10,061)	(69,995)	(772,135)	(842,130)

NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 April 2010	(19,849)	(23,171)	(1,589)	(1,074)	0	(9,115)	(54,798)	(1,110,174)	(1,164,972)
Movement in Reserves during 2010/11									
Surplus or (deficit) on Provision of Services	32,270		203,344		0	0	235,614		235,614
Other Comprehensive Income and Expenditure									
Surplus or deficit on revaluation of non current assets							0	(77,773)	(77,773)
Surplus or deficit on revaluation of available for sale financial assets								(77)	(77)
Impairment losses (chargeable to the Revaluation Reserve)							0	0	0
Actuarial (gains) / losses on pension assets / liabilities							0	(14,980)	(14,980)
Total Comprehensive Income and Expenditure	32,270	0	203,344	0	0	0	235,614	(92,830)	142,784
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(174)						(174)	174	0
Depreciation and Impairment of Fixed Assets	(130,173)		(223,625)				(353,798)	353,798	0
Revaluation Losses on Property Plant and Equipment	0						0	0	0
Movement on Market Value of Investment Properties	1,791		(424)				1,367	(1,367)	0
PYA - Reversal of HRA Properties 08/09 Impairment							0	0	0
Assets Transferred to CAPITA	(298)						(298)	298	0
Capital Grants and Contributions Applied	35,099		6,334				41,433	(41,433)	0
Capital Grants and Contributions Unapplied	3,657					(3,657)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(20,511)						(20,511)	20,511	0
Short-term Accumulating Compensated Absences Account	497						497	(497)	0
Net (loss) / gain on sale of Fixed Assets	(18,730)						(18,730)	0	(18,730)
Capital Receipts not matched by Disposal of Assets	(70)		70				0	0	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	3						3	(3)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	60,857		6,583				67,440	(67,440)	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	20,772		2,248				23,020	(23,020)	0
Statutory Provision for the Financing of Capital Investment	9,662						9,662	(9,662)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,408)			1,408			0	0	0
Capital expenditure charged in-year to the General Fund Balance	3,787		10,056				13,843	(13,843)	0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	32						32	(32)	0
Transfers to/(from) Major Repairs Reserve			(68)		68		0		
Major Repairs Allowance					(10,462)		(10,462)	10,462	0
Financing of HRA Assets					10,394		10,394	(10,394)	0
Removal of HRA Effective Interest Rate Calculation			103				103	0	103
Amortisation of Item 8 Discount			(83)				(83)	0	(83)
Capital Receipts in Year				(4,873)			(4,873)	0	(4,873)
Capital Receipts Financing of New Capital Expenditure				3,798			3,798	(3,798)	0
Non-current Asset Disposals							0	23,590	23,590
	(35,207)	0	(198,806)	333	0	(3,657)	(237,337)	237,344	7
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,937)	0	4,538	333	0	(3,657)	(1,723)	144,515	142,792
Transfers to/(from) Earmarked Reserves (Note 9)	5,392	(1,419)	(4,572)	(1,000)	0	1,593	(6)	(2)	(8)
(Increase)/Decrease movement in Year	2,455	(1,419)	(34)	(667)	0	(2,064)	(1,729)	144,513	142,784
Balance at 31 March 2011	(17,394)	(24,590)	(1,623)	(1,741)	0	(11,179)	(56,527)	(965,661)	(1,022,188)

NOTES TO THE CORE FINANCIAL STATEMENTS

12. Financing and Investment Income and Expenditure

<u>2010/11</u> £000's		<u>2011/12</u> £000's
822	Temporary Investments	1,498
38	HRA Cash Balances	45
979	Other	1,279
<u>1,839</u>		<u>2,822</u>

<u>2010/11</u> £000's		<u>2011/12</u> £000's
5,179	Interest on External Loans	8,804
598	Payments to HCC in respect of Transferred Debt	572
226	Interest on Funds held	286
4,374	PFI Schemes	4,584
158	Finance Leases	99
<u>10,535</u>		<u>14,345</u>

13. Property Plant and Equipment

Fixed assets are shown at a current valuation of £1,287M, a decrease of £11M. The basis of valuation is explained in more detail in **Note 1 Accounting Policies (u)**. This valuation does not include certain Church and Voluntary Aided schools. These schools have an estimated value of £32M. The values are shown as at 31 March 2012.

Depreciation

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

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

Revaluations

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

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

Disposals

The £39.6M (2010/11 - £18.8M) loss on disposal of non-current assets includes transfers of ownership from the Council to Foundation Trust Schools of approximately £41.6M (2010/11 £16.1M). With the move for schools to convert to academies this is likely to continue.

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PP&E) for 2011/12

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost or Valuation									
At 1 April 2011	496,642	739,459	23,642	131,882	0	10,349	13,999	1,415,973	74,659
Additions	22,123	29,249	4,970	11,262	0	0	31,251	98,855	3,808
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		(2,065)		0	157	(846)		(2,754)	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(24,100)	(3,638)	(11)	0	0	(2,831)	(630)	(31,210)	
Derecognition-Disposals	(2,999)	(44,955)		0	0	0		(47,954)	
Derecognitions- Fully Depreciated			(542)					(542)	
Other Reclassifications		(4,971)		0	1,872	2,757	(5,922)	(6,264)	
At 31 March 2012	491,666	713,079	28,059	143,144	2,029	9,429	38,698	1,426,104	78,467
Accumulated Depreciation and Impairment									
At 1 April 2011	0	(93,549)	(9,050)	(14,705)	0	(648)	0	(117,952)	(3,805)
Depreciation Charge	(13,096)	(17,966)	(3,066)	(2,976)	(41)	(519)		(37,664)	(2,230)
Derecognition-Disposals		2,576	542					3,118	
At 31 March 2012	(13,096)	(108,939)	(11,574)	(17,681)	(41)	(1,167)	0	(152,498)	(6,035)
Net Book Value									
At 31 March 2012	478,570	604,140	16,485	125,463	1,988	8,262	38,698	1,273,606	72,432
At 31 March 2011	496,642	645,909	14,592	117,177	0	9,701	13,999	1,298,020	70,854

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Surplus Assets	Community Assets	PP&E Under Construction	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Carried at Historic Cost		193	16,485	125,463		1,988	38,698	182,827
Valued at Fair Value in:								
2011/12	478,570	442,143			7,013			927,726
2010/11		13,302						13,302
2009/10		89,456			1,249			90,705
2008/09		14,322						14,322
2007/08		44,274						44,274
2006/07		450						450
Net Book Value as at 31 March 2012	478,570	604,140	16,485	125,463	8,262	1,988	38,698	1,273,606

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PP&E) for 2010/11									
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost or Valuation									
At 01 April 2010	697,606	738,934	18,788	120,814	0	8,436	4,818	1,589,396	64,859
Additions	33,584	46,251	4,854	11,068		1	9,181	104,939	2,314
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		77,722				51		77,773	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(222,319)	(102,108)		0				(324,427)	7,486
Derecognition-Disposals	(1,835)	(20,569)		0		0		(22,404)	
Other Reclassifications		(771)				1,861		1,090	
At 31 March 2011	507,036	739,459	23,642	131,882	0	10,349	13,999	1,426,367	74,659
Accumulated Depreciation and Impairment									
At 1 April 2010	0	(75,556)	(5,952)	(11,946)	0	(325)	0	(93,779)	(3,865)
Depreciation Charge	(10,394)	(20,162)	(3,098)	(2,759)		(323)		(36,736)	(2,153)
Other movements in Depreciation and Impairment	0							0	2,213
Derecognition-Disposals		2,169						2,169	
At 31 March 2011	(10,394)	(93,549)	(9,050)	(14,705)	0	(648)	0	(128,346)	(3,805)
Net Book Value									
At 31 March 2011	496,642	645,909	14,592	117,177	0	9,701	13,999	1,298,020	70,854
At 31 March 2010	697,606	663,377	12,836	108,869	0	8,111	4,818	1,495,617	60,994

Capital Commitments

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £58.4M. Similar commitments at 31 March 2011 were £69.5M. The major commitments are:

	£000's
Housing Refurbishment East/West	27,773
Lordshill Academy	3,053
Community Energy Saving Programme	2,226
Windows	1,873
Electrical Riser Upgrades	1,800
Lift Refurbishment - Itchen View Estate	1,547
Crematorium Major Works	1,528
Highways/Roads Programme	1,443
Sheltered Community Improvements - Graylings	1,398
Southampton New Arts Centre	1,202
SDS Modernisation Woolston Comm Centre	1,125
Other Various	13,425
Total	58,393

14. Heritage Assets

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

It is not possible to ascribe meaningful values to the Archive, Archaeology and Local and Maritime Collections. A number of Museum Assets within the Asset Register have been reclassified from Property, Plant and Equipment to Heritage Assets including the Tudor House Museum which has undergone extensive restoration within the last 3 years.

Reconciliation of the Carrying Value of Heritage Assets Held by the Council			
	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000's	£000's	£000's
Cost or Valuation			
01 April 2010 - Restated	190,000		190,000
Transferred From PP&E		5,869	5,869
Additions		2,665	2,665
Disposals			
Revaluations			
Impairment Losses/(reversals) recognised in the Revaluation Reserve			
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services		(3,193)	(3,193)
Depreciation		(106)	(106)
31 March 2011	190,000	5,235	195,235
Cost of Valuation			
1 April 2011	190,000	5,341	195,341
Additions		1,647	1,647
Disposals			
Revaluations			
Impairment Losses/(reversals) recognised in the Revaluation Reserve			
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			
Depreciation		(342)	(342)
31 March 2012	190,000	6,646	196,646

Archives

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

Works of Art

The art collection includes paintings (both oil and watercolour), sketches, and sculptures, is designated i.e. officially recognised as being significant, and numbers approximately 3,500 items most of which have been acquired through donation.

The Art Collection was valued a few years ago, for insurance purposes, at approximately £190M which is the value that they have been recognised in the Balance Sheet.

Archaeology

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Local and Maritime Collections

Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are 200-300,000 items in the collections. About 10% of these items are on databases or spread sheets, the rest are still only on paper records.

Additions and Disposals of Heritage Assets

There were £1.6M of Heritage Asset additions and no disposals in 2011/12.

15. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

<u>2010/11</u> £000's	Investment Properties	<u>2011/12</u> £000's
(6,883)	Rental Income	(7,133)
2,631	Operating Expenditure	3,107
(4,252)	Net (gains)/losses	(4,026)
(1,367)	Net (gains)/losses from fair value adjustments	4,763
<u>(5,619)</u>	Net (Income)/ Expenditure	<u>737</u>

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

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

	<u>2010/11</u> £000's	<u>2011/12</u> £000's
Balance at start of year	133,567	130,625
Additions:		
Purchases		9
Construction		0
Subsequent Expenditure	136	0
Disposals	(3,355)	(3,393)
Net gains/(losses) from fair value adjustments	1,367	(4,763)
Transfers		
(to) /from inventories		
(to) /from Property, Plant and Equipment	(1,090)	1,334
Balance at end of year	<u>130,625</u>	<u>123,812</u>

In the 11/12 balance there are £8.5m of surplus assets.

16. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant

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and Equipment. The intangible assets include both purchased licenses and internally generally software.

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

Purchased Software			
	01 April 2010	31 March 2011	31 March 2012
	£000's	£000's	£000's
Gross carrying amount	1,234	992	1,845
Accumulated amortisation	(522)	(383)	(557)
Net carrying amount at start of the year	712	609	1,288
Purchases	140	853	945
Amortisation for the period	(243)	(174)	(308)
Net carrying amount at end of the year	609	1,288	1,925

17. Financial Instruments

Financial Instruments Classifications

The accounting standards in respect of financial instruments were incorporated into the Local Authority SORP in 2007. The 2011/12 Code of Practice notes that where they continue to be relevant, the transitional provisions of the UK standards adopted by the 2007 SORP remain.

The definition of a financial instrument is 'Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'.

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and finance leases), and investment transactions are classified as financial instruments.

Financial Liabilities

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

The Council's loan portfolio at year end consisted of PWLB and market debt. During the year temporary borrowing from the money markets was also undertaken. Under the 2011/12 Code of Practice these forms of borrowing are measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement.

At the end of 2011/12 the Council took on new debt of £73.8M to "buy itself out" of the HRA subsidy system.

The Council also had other deferred liability commitments, including PFI schemes and finance leases.

Financial Assets

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

The three classifications for financial assets under the Code of Practice are:

- Loans and Receivables;
- Available for Sale; and
- Fair Value through Profit and Loss.

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The Council's portfolio of investments consists of fixed term deposits, money market funds, call/notice accounts and supranational/government bonds. Term deposits and call accounts are classed as 'Loans and Receivables' and are measured at amortised cost. This form of measurement does not change the amount of cash received under the terms of the investment. Trade Receivables (i.e. Trade Debtors) are classified as Loans and Receivables. As these are considered immaterial they have been measured at cost on the Balance Sheet.

Money Market Funds and Supranational/Government Bonds are classified as Available for Sale.

Balances in money market funds and call accounts at 31 March 2012 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

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

Transaction costs

Measurement at amortised cost permits transactions costs related to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure Statement over the life of the instrument. Where these are considered to be immaterial they can be charged in full to the Comprehensive Income and Expenditure Statement in the financial year which they are incurred.

Financial Instruments Balances

The financial assets and liabilities disclosed in the balance sheet are analysed across the following categories:

	Long-Term			Short Term			Total		
	01 April 2010	31 March 2011	31 March 2012	01 April 2010	31 March 2011	31 March 2012	01 April 2010	31 March 2011	31 March 2012
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Borrowing	104,920	176,492	267,407	51,078	49,311	34,560	155,998	225,803	301,967
Deferred Liabilities	18,420	17,683	16,976	768	737	707	19,188	18,420	17,683
Trade Payables				7,102	7,390	8,690	7,102	7,390	8,690
PFI/Finance Lease Liabilities	51,698	50,166	51,466	2,766	3,136	2,508	54,464	53,302	53,974
Total Financial Liabilities	175,038	244,341	335,849	61,714	60,574	46,465	236,752	304,915	382,314
Loans (including MMFs)				40,494	69,983	62,490	40,494	69,983	62,490
Available-for-sale Financial Assets	6,412	6,489	3,478	170	170	3,228	6,582	6,659	6,706
Trade Receivables	71	54	32	14,177	13,180	11,928	14,248	13,234	11,960
Total Financial Assets	6,483	6,543	3,510	54,841	83,333	77,646	61,324	89,876	81,156

The following table reflects the composition of borrowing recorded on the Balance Sheet:

	Long-Term			Short Term			Total		
	01 April 2010	31 March 2011	31 March 2012	01 April 2010	31 March 2011	31 March 2012	01 April 2010	31 March 2011	31 March 2012
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Borrowing									
Nominal Amount	104,594	176,264	267,320	50,623	48,413	32,909	155,217	224,677	300,229
Accrued Interest				223	801	1,509	223	801	1,509
Unamortised Discounts / (Premiums) on Modified Loans	326	228	87	232	97	142	558	325	229
Total Borrowings as per Balance Sheet	104,920	176,492	267,407	51,078	49,311	34,560	155,998	225,803	301,967

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The following tables reflect the composition of investments recorded on the Balance Sheet, under short term investment and cash & cash equivalents (but exclude petty cash which is not a financial instrument, for £139,000 at 31 March 2012 (£152,000 at 31 March 2011).

31 March 2012						
	Nominal	Accrued	EIR	Amortised	Market	Fair
	£000's	Interest	Adjustment	Cost	Premium /	Value
Short Term	£000's	£000's	£000's	£000's	Discount	£000's
Loans	10,000	155		10,155		10,155
Available-for-sale Financial Assets	3,000	168	2	3,170	58	3,228
	13,000	323	2	13,325	58	13,383
Cash & Cash Equivalents (inc MMFs)	52,305	30		52,335		52,335
	65,305	353	2	65,660	58	65,718
Long Term						
Available-for-sale Financial Assets	3,036	0	28	3,064	414	3,478
	3,036	0	28	3,064	414	3,478
Total Financial Assets	68,341	353	30	68,724	472	69,196

31 March 2011						
	Nominal	Accrued	EIR	Amortised	Market	Fair
	£000's	Interest	Adjustment	Cost	Premium /	Value
Short Term	£000's	£000's	£000's	£000's	Discount	£000's
Loans	29,300	89		29,389		29,389
Available-for-sale Financial Assets		168	2	170		170
	29,300	257	2	29,559	0	29,559
Cash & Cash Equivalents (inc MMFs)	40,575	19		40,594		40,594
	69,875	276	2	70,153	0	70,153
Long Term						
Available-for-sale Financial Assets	6,036	0	30	6,066	423	6,489
	6,036	0	30	6,066	423	6,489
Total Financial Assets	75,911	276	32	76,219	423	76,642

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2012/13.

Soft Loans

Where loans are advanced at below market rates they are classed as 'Soft Loans'. The 2011 Code of Practice sets out specific accounting requirements for soft loans. The Council does not have any material soft loans.

Financial Instruments – Gains and Losses

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

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	2011/12			
	Financial Liabilities	Financial Assets		Total £000's
	Liabilities measured at amortised cost £000's	Loans and Receivables £000's	Available-for-sale Assets £000's	
Interest expense	(14,285)			
Losses on derecognition Impairment Losses	(60)			(60)
Interest payable and similar charges	(14,345)	0	0	(14,345)
Interest income		2,733		2,733
Gains on derecognition	89			89
Interest and investment income	89	2,733	0	2,822
Gains on revaluation			138	
Losses on revaluation			(89)	
Amounts recycled to the I&E Account after impairment				
Surplus arising on revaluation of financial assets			49	
Net gain / (loss) for the year	(14,256)	2,733	49	

Financial Instruments – Fair Values

For each class of financial assets and financial liabilities, an authority is required to disclose the fair value of that class of assets and liabilities in such a way that a comparison with the carrying amount is possible.

The Council's long term loans are carried in the Balance Sheet at amortised cost. Investments consist of loan and receivables, available for sale, and fair value through profit and loss investments. Loans and receivables are carried in the Balance Sheet at amortised cost, whereas the other two categories of investment are carried at fair value. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This also includes accrued interest for long term investments and borrowings as well as accrued interest for cash and cash equivalents.

The 2011 Code of Practice requires the Fair Values of these assets and liabilities to be disclosed for comparison purposes. Fair Value is the amount for which asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The Fair Value of a financial instrument on initial recognition is generally the transaction price. The Council's debt outstanding at 31 March 2011 and 31 March 2012 consisted of loans from the Public Works Loan Board (PWLB) and market loans. The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have had to pay to extinguish the loans on these dates. In the case of market loans, the Council wrote to the lender. Due to no response, the Council's Treasury Adviser has calculated the fair value based on equivalent swap rates at the Balance Sheet date.

In the case of short term instruments and deferred liabilities (deemed debt, PFI, finance leases) the authority deems the carrying amount to be a reasonable approximation of the fair value. See **Note 35 for Leases and Note 36 for PFI and Similar Contracts**.

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Carrying Amount	Fair Value	Carrying Amount	Fair Value		Carrying Amount	Fair Value
01 April 2010 £000's	01 April 2010 £000's	31 March 2011 £000's	31 March 2011 £000's		31 March 2012 £000's	31 March 2012 £000's
				Financial Liabilities		
155,998	159,659	225,803	234,562	Loans Outstanding	301,967	337,867
19,188	19,188	18,420	18,420	Deferred Liabilities	17,683	17,683
54,464	54,464	53,302	53,302	PFI/Finance Lease Liabilities	53,974	53,974
7,102	7,102	7,390	7,390	Trade Payables (Creditors)	8,690	8,690
236,752	240,413	304,915	313,674	Total Financial Liabilities	382,314	418,214
				Financial Assets		
6,412	6,407	6,489	6,485	Long Term Investments	3,478	3,480
40,664	40,664	70,153	70,153	Short Term investments	65,718	65,718
14,248	12,179	13,234	11,169	Trade Receivables (Debtors)	11,960	9,750
61,324	59,250	89,876	87,807	Total Financial Assets	81,156	78,948

Financial Liabilities

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

Financial Assets

Long term investments consist of a £3M (nominal value) bond investment which is carried in the Balance Sheet at its fair value rather than its cost and a small number of gilts (£0.04M) carried at cost. The fair value is higher because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Financial Instruments – Risks

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

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG/Scottish Government/WAG's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- **Credit Risk:** The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.
- **Liquidity Risk:** The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.
- **Market Risk:** The possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

Credit Risk

Loans and Receivables

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, other local authorities, AAA-rated money market funds or Banks and Building Societies having

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sufficiently high credit worthiness as set out in the Treasury Management Strategy. The strategy states that a maximum limit of £15M can be invested with a single counterparty subject to this being no more than 15% of total investments and in the case of money market funds being no more than 0.5% of any one individual fund. However due to uncertainty in the Eurozone this was restricted to 10% and 0.25% of any one fund from December 2011. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than 60% of total investments up to a limit of £50M can be invested for periods over one year. The Council has no historical experience of counterparty default.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2011/12, approved by Full Council on 16 February 2011. The 2011/12 Treasury Statement can be seen as item 6 on the Council Meetings Agenda found via the following web link:

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=1863&Ver=44>

The minimum long-term counterparty rating determined for the 2011/12 treasury strategy was A+/A1 across all three rating agencies, Fitch, S&P and Moody's. Downgrades in the autumn 2011 to the long-term ratings of several counterparties resulted in their ratings falling below the Authority's minimum threshold of A+/A3. The downgrades were driven principally by the agencies' view of the extent of future government support (flowing from the recommendations to the government from the Independent Commission on Banking) rather than a deterioration in the institutions' creditworthiness. Further use of these counterparties was suspended until revised criteria were approved for use as part of the Treasury Management Strategy presented to Council on 15 February 2012.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2012, and confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Outstanding Investments as at 31 March 2012									
Counterparty	Credit Rating Criteria Met When Investment Placed	Credit Rating Criteria Met on 31 March 2012	Under 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	Over 12 Months	Total
	YES/NO	YES/NO	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
UK									
Bank Deposits	YES	YES	12,000	4,000	3,000				19,000
Building Societies	YES	YES							0
Gov't & Local Authority Deposits	YES	YES							0
Money Market Funds	YES	YES	43,305						43,305
Bonds							3,000	3,036	6,036
Total Investments			55,305	4,000	3,000	0	3,000	3,036	68,341

The above analysis shows that all deposits outstanding as at 31 March 2012 met the Council's credit rating criteria on the 31 March 2012.

Trade Receivables

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

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Trade Debtors and Impairment Provision

	Outstanding 01 April 2010 £'000's	Outstanding 31 March 2011 £'000's	Outstanding 31 March 2012 £'000's
General Fund			
Trade Debtors	10,589	9,570	8,235
Trade Debtors Impairment Provision	(681)	(832)	(865)
HRA			
Trade Debtors	3,588	3,610	3,693
Trade Debtors Impairment Provision	(1,385)	(1,231)	(1,345)

Liquidity Risk

The Council has access to borrowing facilities via the Public Works Loan Board, commercial banks, bond issues, medium term notes, tax increment financing, the European Investment Bank, and other local authorities. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

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

The maturity analysis of the nominal value of the Council's debt at 31 March 2012 was as follows:

Outstanding 01 April 2010 £000's	% of total debt portfolio	Outstanding 31 March 2011 £000's	% of total debt portfolio	Total borrowing Source of Loan	Outstanding 31 March 2012 £000's	% of total debt portfolio
112,661	72	177,733	79	Public Works Loan Board	290,825	97
43,337	28	46,944	21	Other Financial Institutions	9,404	3
155,998	100	224,677	100		300,229	100
Analysis of Loans by Maturity						
51,078	33	48,413	22	Less than 1 Year	32,909	11
9,357	6	18,121	8	Between 1 and 2 years	12,505	4
19,834	12	19,561	8	Between 2 and 5 years	34,515	11
36,729	24	64,582	29	Between 5 and 10 years	81,453	28
				Between 10 and 15 years	0	0
		6,000	3	Between 20 and 25 years	0	0
		10,000	4	Between 25 and 30 years	10,000	3
21,000	13	8,000	4	Between 30 and 35 years	5,000	2
		25,000	11	Between 35 and 40 years	25,000	8
		10,000	4	Between 40 and 45 years	47,900	16
18,000	12	15,000	7	Over 45 years	50,947	17
155,998	100	224,677	100		300,229	100

* Please note that the authority has £9M of LOBO loans that are currently in their call period so are included in the less than one year analysis above. It is unlikely that the lender will revise the terms in the next year, but if terms changed the Council will repay these loans.

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

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Loans and Other Long term Liabilities Outstanding (Nominal Value)			
	Outstanding 01 April 2010	Outstanding 31 March 2011	Outstanding 31 March 2012
Source	£'000's	£'000's	£'000's
Public Works Loan Board	1 12,661	1 77,733	290,825
Market Debt	9,000	11,625	9,000
Temporary Borrowing	34,337	35,319	404
Deferred Liabilities	19,188	18,420	17,683
PFI/Finance Lease Liabilities	54,464	53,302	53,974
Total	229,650	296,399	371,886

Market Risk

- Interest Rate Risk:** The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 50% on external debt that can be subject to variable interest rates. At 31 March 2012, 85% of the debt portfolio was held in fixed rate instruments, and 15% in variable rate instruments. If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowings	453
Increase in interest payable on variable rate investments	
Increase in government grant receivable for financing costs	
Impact on the Provision of Services (surplus/deficit)	453
Share of overall impact debited/credited to HRA	201
Decrease in fair value of fixed rate investment assets	
Impact on Other Comprehensive Income and Expenditure	
Decrease in fair value of fixed rate borrowings/liabilities	(62,753)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the 'Fair Value' disclosure note.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

- Price Risk:** The Council does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).
- Foreign Exchange Risk:** The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

Unusable Reserve - Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) was established on 1 April 2007 when Financial Reporting Standards 25, 26 and 29 relating to Financial Instruments were adopted into the SORP (2007 SORP). The FIAA account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council also uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out in the Movement in Reserves Statement.

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Over time, the expense is posted back to the General Fund and HRA in accordance with statutory arrangements for spreading the impact on council tax and Housing rent. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next nine years and to the HRA over the next eight years.

The transactions reflected in the FIAA for 2011/12 are as follows:

<u>2010/11</u> £000's		<u>2011/12</u> £000's
621	Balance Brought Forward	624
0	Premiums incurred in year charged to I&E	(717)
(89)	Proportion of Discounts received in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(89)
60	Proportion of Premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	60
(29)	Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs in the year in accordance with	(746)
32	HRA Item 8 adjustments Other	(28)
624	Balance Carried forward	(150)

During 2008/09 the Council restructured some of its debt portfolio with the PWLB. When loans are repaid before their maturity dates there may be a premium charged or discount received which will depend on the interest rate of the loan being repaid and current loan interest rates on offer. The treatment of the premiums and discount varies according to whether a loan has been extinguished or modified (i.e. a new loan has been taken which is considered to be an exchange for the loan that has been repaid).

Where the restructuring results in an 'extinguishment', regulations allow the impact on the General Fund balance to be spread over future years. Premiums and discounts are spread over the lesser of the unexpired term of the repaid loan or ten financial years.

18. Inventories

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.

	Raw Materials & Consumables		WIP		Finished Goods		Total	
	2010/11 £'000's	2011/12 £'000's	2010/11 £'000's	2011/12 £'000's	2010/11 £'000's	2011/12 £'000's	2010/11 £'000's	2011/12 £'000's
Opening Balance	979	914	6	0	355	135	1,340	1,050
Additions / Purchases	3,694	2,655			319	191	4,013	2,846
Revaluations	(39)	(8)					(39)	(8)
Disposals / Usage	(3,732)	(2,748)	(6)		(484)	(124)	(4,221)	(2,872)
Write Offs	12	(144)			(55)	(73)	(43)	(217)
Closing Balance	914	669	0	0	135	129	1,050	799

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19. Debtors

Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2012.

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

<u>01 April</u> <u>2010</u>	<u>31 March</u> <u>2011</u>	<u>Debtors</u>	<u>31 March</u> <u>2012</u>
£000's	£000's		£000's
		Government	
6,961	16,411	Department of Communities & Local Government	461
	1,598	Department for Education	
3,938	5,047	Department of Work and Pensions	2,616
7,188	7,136	HM Revenue & Customs (VAT)	4,711
	1,063	Homes and Community Agency	
	1,977	Heritage Lottery Fund	4,913
290	184	Other Departments	375
<u>18,377</u>	<u>33,416</u>		<u>13,076</u>
		Taxpayers	
7,118	6,518	Council Tax	6,917
(4,816)	(4,403)	Council Tax Impairment	(4,922)
<u>2,302</u>	<u>2,115</u>		<u>1,995</u>
		Public Sector Organisations	
1,181	1,478	Hampshire County Council	1,634
602	412	Other Local Authorities and Public Bodies	1,062
<u>1,783</u>	<u>1,890</u>		<u>2,696</u>
		General Fund - Other Debtors	
5,067	5,600	Housing Benefit	6,216
(3,223)	(3,408)	Housing Benefit Impairment Provision	(4,011)
	205	CAPITA	415
386	289	Landfill Allowance Trading Scheme (LATS)	57
10,589	9,570	Trade Debtors	8,235
(681)	(832)	Trade Debtors Impairment Provision	(865)
7,817	8,539	Sundry Debtors	9,640
(2,302)	(2,218)	Sundry Debtors Impairment Provision	(2,344)
<u>17,653</u>	<u>17,745</u>		<u>17,343</u>
		Housing Revenue Account - Other Debtors	
3,588	3,610	Trade Debtors	3,693
(1,385)	(1,231)	Trade Debtors - Impairment Provision	(1,345)
2,206	3,026	Sundry Debtors	3,144
(456)	(628)	Sundry Debtors - Impairment Provision	(613)
<u>3,953</u>	<u>4,777</u>		<u>4,879</u>
<u>44,068</u>	<u>59,943</u>	Total Debtors	<u>39,989</u>

Long Term Debtors

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

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) IT Assets transferred to Capita

A balance for Deferred Consideration (within Long Term Debtors) was established, in 2007/08, with the Net Book Value of the assets (£3.3M). The deferred consideration (total cost including financing charges) is being written down to zero over the 10 year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement (£424,000). This is then reversed out through the Movement in Reserves Statement. As the Council has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the ten year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£110,000). Therefore the net reduction in Long term debtors is £314,000. More information relating to the contract with Capita is included in **Accounting Policy aa**).

NOTES TO THE CORE FINANCIAL STATEMENTS

c) 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 leaving the car lease scheme. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

<u>01 April</u> <u>2010</u> £000's	<u>31 March</u> <u>2011</u> £000's		<u>31 March</u> <u>2012</u> £000's
		Mortgages	
71	54	Sale of Council Houses	32
		Other	
2,438	2,140	IT Assets transferred to Capita	1,826
134	139	Other	143
<u>2,643</u>	<u>2,333</u>		<u>2,001</u>

20. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management.

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

	<u>01 April</u> <u>2010</u> £000's	<u>31 March</u> <u>2011</u> £000's	<u>31 March</u> <u>2012</u> £000's
Bank Accounts	(5,689)	(13,499)	(7,891)
Bank Overdraft	(5,689)	(13,499)	(7,891)
Money Market Funds	10,645	40,594	43,329
Call Accounts			9,006
Petty Cash	176	152	139
	<u>10,821</u>	<u>40,746</u>	<u>52,474</u>
Total	<u>5,132</u>	<u>27,247</u>	<u>44,583</u>

Although the balance shown suggests that the bank accounts were overdrawn by over £7.9M, the Council's actual bank account balance at the Bank was £369,000 at 31 March 2012. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn by £7.9M because future income receipts will cover any outstanding year end payment commitments. Alternatively the Council can withdraw from Money Market Funds and Call Accounts (as detailed in the above table) or access temporary borrowing on the Money Markets if required.

21. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2012.

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 31 March 2012.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>01 April</u> <u>2010</u>	<u>31 March</u> <u>2011</u>	<u>Creditors</u>	<u>31 March</u> <u>2012</u>
£000's	£000's		£000's
		<u>Government</u>	
5,222	3,552	Department of Communities & Local Government	1,927
2,715	4,586	Department for Education	1,853
4,302	4,132	HM Revenue & Customs (PAYE & National Insurance)	3,285
2,500	1,525	Homes & Community Agency (HCA)	
525	525	South East England Development Agency (SEEDA)	922
893	1,009	Teachers Superannuation	2,090
		Public Works Loans Board (PWLB)	441
1,034	446	Other Departments	
<u>17,191</u>	<u>15,775</u>		<u>10,518</u>
		<u>Taxpayers</u>	
599	710	Council Tax / Business Rates (prepayments)	633
<u>599</u>	<u>710</u>		<u>633</u>
		<u>Public Sector Organisations</u>	
2,230	1,974	Hampshire County Council	3,309
4,113	4,304	Hampshire County Council (Local Government Superannuation)	1,843
938	1,171	Southampton University Hospitals	1,306
728	1,229	Other Local Authorities and Public Bodies	475
<u>8,009</u>	<u>8,678</u>		<u>6,933</u>
		<u>General Fund - Other Creditors</u>	
280	290	Building Control Competition A/C	324
386	289	Landfill Allowance Trading Scheme (LATS)	57
1,394	1,018	Finance Creditor (Leasing))	905
1,372	2,118	Finance Creditor (PFI and Hampshire Waste Contract)	1,603
3,017	2,520	Accumulated Absences Account	2,551
1,848	2,915	CAPITA	3,616
31,899	39,709	Sundry Creditors	26,972
6,224	6,293	Trade Creditors	7,611
<u>46,420</u>	<u>55,152</u>		<u>43,639</u>
		<u>Housing Revenue Account - Other Creditors</u>	
1,959	1,325	Sundry Creditors	727
878	1,097	Trade Creditors	1,079
<u>2,837</u>	<u>2,422</u>		<u>1,806</u>
<u>75,056</u>	<u>82,737</u>	Total Creditors	<u>63,529</u>

22. Provisions

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	Balance at 1 April 2010	Additional provisions made in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2011	Additional provisions made in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2012
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000
General Fund									
Equal Pay	12,000		(5,453)		6,547		(471)	(5,746)	330
General Insurance Funds	7,374	1,590	(1,419)		7,545	934	(1,644)		6,835
Itchen Bridge Repairs	1,445		(895)		550	1,074	(1,364)		260
UPVC Plant	157			(157)	0				0
Other Provisions	60	145			205	19	(59)		165
	21,036	1,735	(7,767)	(157)	14,847	2,027	(3,538)	(5,746)	7,590
HFA	45	736			781	50	(747)		84
Total	21,081	2,471	(7,767)	(157)	15,628	2,077	(4,285)	(5,746)	7,674

Equal Pay Provision

The Council, for both the 2009/10 and the 2010/11 Financial Statements, relied on the provisions contained within Financial Reporting Standard 12 namely:

In accordance with paragraph 97 of Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets), the Council chose not to disclose the information that would usually be required to be shown within the Financial Statements in relation to the Equal Pay Provision, based on the advice of the Monitoring Officer that to disclose the information would seriously prejudice the Council's position with regard to ongoing litigation.

For the 2011/12 Financial Statements the Council is no longer relying on the provisions contained within Financial Reporting Standard 12 with respect to the above and discloses the provision in full as treated in both the 2009/10 and 2010/11 Financial Statements

The Council received a number of Equal Pay claims and in the 2009/10 Financial Statements raised an Equal Pay Provision of £12M to meet any liabilities, which may have arisen from the litigation process which was treated as an exceptional item within the Income and Expenditure Account.

In addition, the Council applied for and received a Capitalisation Direction in 2009/10 which enabled them to treat the Equal Pay Provision as Capital expenditure.

£5.5M of the £12M provision was utilised in 2010/11 and a further £0.5M in 2011/12. A review of existing claims indicated a required carried forward provision of approximately £0.3M, therefore £5.7M has been reversed and treated as an exceptional item within the 2011/12 Comprehensive Income and Expenditure Account. This has been subsequently transferred into the Capital Adjustment Account through the MIRS as the original provision was capitalised (See Contingent Liabilities).

The impact on the Minimum Revenue Provision of the reduced Capitalisation requirement i.e. reduced Capital Financing Requirement will be appropriately reflected in the 2012/13 Financial Statements.

Insurance Provisions

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

The estimated outstanding reserve for 'claims reported but not settled' as at 31 March 2012 amounted to £3.2M with a closing fund balance of £6.8M. With regard to the outstanding reserve figure, the Council's 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

NOTES TO THE CORE FINANCIAL STATEMENTS

claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

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

Other Provisions

All other provisions are individually insignificant.

23. Usable Reserves

Movements in the Council's usable reserves are detailed in the Transfers to/from Earmarked Reserve Statement **Note 9** and **Note 11**.

24. Unusable Reserves

a) Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

<u>2010/11</u> £000's		<u>2011/12</u> £000's
232,548	Balance Brought Forward	307,280
80,771	Upward revaluations of assets	4,742
(2,998)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(7,496)
310,321	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	304,526
(2,346)	Difference between fair value depreciation and historical cost depreciation	(2,430)
(695)	Accumulated Revaluations on Disposals	(4,028)
<u>307,280</u>	Balance Carried Forward	<u>298,068</u>

b) Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost or
- disposed of and the gains are realised.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
346	Balance Brought Forward	423
77	Upward Revaluation of Investments	49
<u>423</u>	Balance Carried Forward	<u>472</u>

c) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 11 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
1,285,199	Balance Brought Forward	959,905
	Capital Financing	
3,798	Usable Capital Receipts	4,835
41,433	Capital Grants & Contributions	48,451
10,394	Major Repairs Allowance	13,096
13,843	Revenue Contributions	12,740
	Other Movements	
(20,511)	Revenue Expenditure Funded from Capital under Statute Capitalisation	(4,391)
	HRA Self Financing	(73,847)
	Net gains/losses from fair value adjustments on Investment Properties	(4,763)
1,367		(313)
(298)	Deferred Considerations	(313)
	PYA - HRA reversal of Prior years Impairment	
(364,434)	Depreciation & Impairment	(69,419)
(23,590)	Disposals	(48,771)
2,346	Historic Cost Depreciation Adjustment	2,430
695	Accumulated Revaluations on Disposals	4,028
9,662	MRP	10,825
1	Other	4
<u>959,905</u>	Balance Carried Forward	<u>859,401</u>

d) Financial Instrument Adjustment Account

Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments, mainly as a result of debt structure. Further details can be found in **Note 17**.

NOTES TO THE CORE FINANCIAL STATEMENTS

e) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
(408,990)	Balance Brought Forward	(303,550)
(19,820)	Current Service Cost	(16,950)
100,660	Past Service Costs (added years)	(2,330)
(41,550)	Interest Costs	(41,080)
28,150	Return on Assets	32,180
23,020	Payments to Pension Fund	23,260
14,980	Actuarial Losses (Surplus) on Fund Curtailments and Settlements	(76,050)
<u>(303,550)</u>	Balance Carried Forward	<u>(384,520)</u>

f) Collection Fund Adjustment Account

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

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
3,467	Balance Brought Forward	3,499
32	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(2,084)
<u>3,499</u>	Balance Carried Forward	<u>1,415</u>

g) Accumulated Absences Account

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2010/11</u>		<u>2011/12</u>
	£000's	£000's
(3,017)	Balance Brought Forward	(2,520)
3,017	Settlement or cancellation of accrual made at the end of the preceding year	2,520
(2,520)	Amounts accrued at the end of the current year	(2,551)
<u>(2,520)</u>	Balance Carried Forward	<u>(2,551)</u>

25. Notes to Cash Flow Statement

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

<u>2010/11</u>		<u>2011/12</u>	
	£000's	£000's	£000's
(235,614)	Net Surplus or (Deficit) on the Provision of Services		(101,303)
	Adjust net surplus or deficit on the provision of services for non cash movements		
39,833	Depreciation	37,901	
324,427	Impairment and downward valuations	31,210	
174	Amortisation	308	
(230)	Adjustments for effective interest rates	(95)	
298	Net PFI Debtor Adjustments	314	
577	Increase/(Decrease) in Interest Creditors	1,798	
4,598	Increase/(Decrease) in Creditors	(20,257)	
180	(Increase)/Decrease in Interest and Dividend Debtors	(66)	
(3,609)	(Increase)/Decrease in Debtors	10,869	
290	(Increase)/Decrease in Inventories	251	
(90,460)	Pension Liability	4,920	
0	Contributions to/(from) Provisions	(1,737)	
(5,453)	Provision for Equal Pay	(6,217)	
23,590	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	48,771	
(1,367)	Movement in Investment Property Values	4,763	
109	Other Items	(18)	
<u>292,957</u>			<u>112,715</u>
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(44,497)	Capital Grants credited to surplus or deficit on the provision of services	(47,333)	
(4,927)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(9,464)	
<u>(49,424)</u>			<u>(56,797)</u>
<u>7,919</u>	Net Cash Flows from Operating Activities		<u>(45,385)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

(b) Operating Activities – Interest

<u>2010/11</u> <u>Restated</u> £000's		<u>2011/12</u> £000's
	Operating activities within the cashflow statement include the following cash flows relating to interest	
2,021	Interest Received	1,437
(9,929)	Interest Paid	(12,489)

(c) Cash Flows from Investing Activities

<u>2010/11</u> <u>Restated</u> £000's		<u>2011/12</u> £000's
	Cash Flows from Investing Activities	
(103,510)	Property, Plant and Equipment Purchased	(97,719)
(332,210)	Purchase of short term investments	(97,300)
4,847	Proceeds from the sale of property plant and equipment, investment property and intangible assets	9,575
332,490	Proceeds from short-term and long-term investments	116,600
56,405	Other Receipts from Investing Activities - Capital Grants & Contributions Received	44,248
<u>(41,978)</u>	Total Cash Flows from Investing Activities	<u>(24,596)</u>

(d) Cash Flows from Financing Activities

<u>2010/11</u> <u>Restated</u> £000's		<u>2011/12</u> £000's
	Cash Flows from Financing Activities	
359,680	Cash receipts of short and long term borrowing	309,267
(8,913)	Billing Authorities - Council Tax and NNDR adjustments	14,645
(291,116)	Repayment of Short-Term and Long-Term Borrowing	(233,458)
(3,477)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,137)
<u>56,174</u>	Total Cash Flows from Financing Activities	<u>87,317</u>

(e) Make-up of Cash and Cash Equivalents

<u>2010/11</u> <u>Restated</u> £000's		<u>2011/12</u> £000's
	Makeup of Cash and Cash Equivalents	
152	Cash and Bank Balances	139
40,594	Cash Investments - regarded as cash equivalents	52,335
(13,499)	Bank Overdraft	(7,891)
<u>27,247</u>		<u>44,583</u>

26. Acquired and Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued during the year. There were no material changes during 2011/12 and therefore no separate disclosure is required.

NOTES TO THE CORE FINANCIAL STATEMENTS

27. Agency Services

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

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

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

Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government. Any amounts not paid at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

28. Road Charging Schemes under the 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.

29. Members Allowances

The total of members allowances paid in 2011/12 was £672,000, (£700,000 in 2010/11) as detailed in the table below.

	31 March 2011 £000's	31 March 2012 £000's
Salaries	536	536
Allowances	161	134
Expenses	3	2
Total	700	672

For further details see the Transparency pages on the Internet
<http://www.southampton.gov.uk/council-partners/transparency.aspx>

NOTES TO THE CORE FINANCIAL STATEMENTS

30. Officers' Remuneration

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

<u>Band £</u>	<u>Number of Employees</u>					
	<u>2010/11*</u>			<u>2011/12</u>		
	<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 - 54,999	37	48	85	43	43	86
55,000 - 59,999	28	40	68	33	20	53
60,000 - 64,999	26	12	38	22	9	31
65,000 - 69,999	4	3	7	11	10	21
70,000 - 74,999	8	16	24	6	8	14
75,000 - 79,999	3	14	17	3	8	11
80,000 - 84,999	6	9	15	2	6	8
85,000 - 89,999	0	3	3	3	5	8
90,000 - 94,999	0	2	2	0	5	5
95,000 - 99,999	2	2	4	0	0	0
100,000 - 104,999	0	1	1	2	1	3
105,000 - 109,999	0	4	4	0	3	3
110,000 - 114,999	0	2	2	0	1	1
115,000 - 119,999	1	4	5	0	5	5
120,000 - 124,999	0	2	2	0	0	0
125,000 - 129,999	0	0	0	1	0	1
130,000 - 134,999	0	0	0	0	0	0
135,000 - 139,999	0	0	0	0	2	2
160,000 - 164,999	0	0	0	0	1	1
165,000 - 169,999	0	0	0	0	1	1
260,000 - 264,999	0	1	1	0	0	0
	115	163	278	126	128	254

* 2010/11 figures amended to include cost of redundancy packages accrued for in the 2010/11 Statement of Accounts but previously omitted from this statement.

Local authorities are required to disclose the remuneration details of senior employees. Senior employees are the Chief Executive and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2010/11.

NOTES TO THE CORE FINANCIAL STATEMENTS

2011/12

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2011/12</u>	<u>Pensions contributions (see Note 8)</u>	<u>Total Remuneration including pension contributions 2011/12</u>
	£	£	£	£	£	£	£
Chief Executive							
- Alistair Neill	165,753	1,452	-	-	167,205	21,714	188,919
Director of Children's Services & Learning							
- Clive Webster	119,301	574	-	-	119,875	15,628	135,503
Director of Communications until 31/12/2011							
- Ben White (see Note 1)	61,217	-	-	-	61,217	8,019	69,236
Director of Corporate Services							
- Mark Heath	116,033	122	-	-	116,155	15,200	131,355
Director of Economic Development							
- Dawn Baxendale	116,033	-	-	-	116,033	15,200	131,233
Director of Environment until 30/06/2011							
- Lorraine Brown (see Note 2)	32,678	31	-	224	32,933	4,281	37,214
Director of Environment from 01/07/2011							
- Frances Martin	83,130	-	-	-	83,130	10,890	94,020
Director of Health & Adult Social Care until 30/04/2012							
- Penny Furness-Smith (see Note 3)	125,516	-	34,044	-	159,560	109,064	268,624
Director of Neighbourhoods until 15/07/2011							
- Nick Murphy (see Note 4)	41,645	622	9,600	-	51,867	88,751	140,618
Acting Director of Resources (CFO) until 15/05/2011							
- Rob Carr (see Note 5)	13,725	300	-	-	14,025	1,997	16,022
Head of Finance & IT (CFO) from 01/05/2011							
- Andrew Lowe (see Note 6)	80,117	112	-	-	80,229	10,495	90,724
	955,148	3,213	43,644	224	1,002,229	301,239	1,303,468

Note 1

Director of Communications post was deleted from 31/12/2011.

Note 2

Compensation for loss of office for Lorraine Brown is accounted for and disclosed in 2010/11, however this was not received by the employee until 2011/12.

Note 3

Compensation for loss of office for Penny Furness-Smith is accounted for in 2011/12 and hence is disclosed here despite being received by the employee in 2012/13. Payment to LGPS of £92,621

Note 4

Director of Neighbourhoods post deleted. Payment to LGPS of £83,934.

Note 5

Director of Resources post deleted.

Note 6

Head of Finance & IT post assumed the Chief Financial Officer role and responsibilities from May 2011.

Note 7

There were no bonuses paid.

Note 8

In 2011/12 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2010/11

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2010/11</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2010/11</u>
	£	£	£	£	£	£	£
Chief Executive retired 03/12/2010 - Brad Roynon	116,471	2,008	-	-	118,479	16,888	135,367
Chief Executive from 01/11/2010 - Alistair Neill	71,924	4,095	-	-	76,019	10,429	86,448
Assistant Chief Executive (Strategy) until 31/08/2010 - Joy Wilmot-Palmer (see Note 1)	38,018	567	16,949	-	55,534	5,513	61,047
Executive Director of Corporate Policy & Economic Development - Dawn Baxendale	110,830	-	-	-	110,830	16,070	126,900
Solicitor to the Council - Mark Heath	115,086	122	-	-	115,208	16,687	131,895
Executive Director of Environment - Lorraine Brown (see Note 2)	126,663	122	133,970	2,493	263,248	221,054	484,302
Executive Director of Health & Adult Social Care from 10/05/2010 - Penny Furness-Smith	116,659	-	-	-	116,659	16,916	133,575
Executive Director of Neighbourhoods - Nick Murphy	123,261	1,435	-	-	124,696	17,873	142,569
Executive Director of Children's Services & Learning - Clive Webster	123,261	520	-	-	123,781	17,873	141,654
Executive Director of Resources (CFO) until 16/08/2010 - Carolyn Williamson	49,193	295	-	-	49,488	7,124	56,612
Acting Executive Director of Resources (CFO) from 26/07/2010 - Rob Carr	81,838	84	-	-	81,922	11,866	93,788
Director of Communications - Ben White	83,782	-	-	-	83,782	12,148	95,930
	1,156,986	9,248	150,919	2,493	1,319,646	370,441	1,690,087

Note 1

Assistant Chief Executive (Strategy) post deleted 31/08/2010.

Note 2

Compensation for loss of office for Lorraine Brown is accounted for in 2010/11 and hence is disclosed here despite being received by the employee in 2011/12. Payment to LGPS of £202,687.

Note 3

There were no bonuses paid.

Note 4

In 2010/11 the employer's contribution rate for the Local Government Pension Scheme was 14.5%.

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of exit packages for the past two years are shown in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
	£0-£20,000	72	48	65	79	137	127	943,141
£20,001-£40,000	21	7	29	53	50	60	1,461,651	1,761,767
£40,001-£60,000	4	2	10	20	14	22	684,173	1,063,666
£60,001-£80,000	1	3	3	9	4	12	271,369	805,898
£80,001-£100,000	1	1	3	6	4	7	348,876	636,707
£100,001-£150,000	0	0	2	8	2	8	254,163	986,787
£150,000+	1	0	1	2	2	2	499,172	426,394
Total	100	61	113	177	213	238	4,462,545	6,734,239

31. External Audit Costs

The Council's appointed auditors are the Audit Commission. The Council incurred the following fees relating to external audit and inspection.

2010/11 £000's	2011/12 £000's
317 Statutory Audit & Inspection	290
57 Certification of Grant Claims and Returns	81
5 Other Services	2
379	373

32. Dedicated Schools Grants

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

Details of the deployment of DSG receivable for 2011/12 are as follows:

Details of the deployment of DSG receivable for 2011/12 are as follows:			
	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2011/12			133,263
Brought forward from 2010/11			92
Carry forward agreed in advance			-
Agreed budgeted distribution in 2011/12	12,017	121,338	133,355
Actual central expenditure	(11,511)		(11,511)
Actual ISB deployed to schools		(121,338)	(121,338)
Local authority contribution for 2011/12			0
Carry forward to 2012/13	506	0	506

NOTES TO THE CORE FINANCIAL STATEMENTS

33. Related Parties

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

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and Teachers Pensions Agency as disclosed in **Note 39**; Hampshire Police Authority precept of £9.7M and Hampshire Fire & Rescue Authority precept of £4.1M, shown in the **Collection Fund Accounts**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

For the elected members and 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 which are as follows:

- The Director of Economic Development's husband is the Group Director of Neighbourhood Services for Raglan Housing Association. The Council made revenue payments (Supporting People Grant) of approximately £228,000, and disposed of Land at Studland Road for £453,000 to Raglan Housing Association in 2011/12. The Director of Economic Development was not involved in the decision making process for these transactions.

Amounts Due to or from Related Parties

As at 31 March 2012, significant monies outstanding from related parties were:

<u>2010/11</u>	<u>Money Owed to SCC</u>	<u>2011/12</u>
£000's		£000's
7,136	HM Revenues & Customs (VAT)	4,711
5,047	Department for Works & Pensions (Housing Benefits)	2,616
16,411	Department of Communities and Local Government	461
1,598	Department for Education	
1,977	Heritage Lottery Fund	4,913
<u>32,169</u>	Balance Carried forward	<u>12,701</u>

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

<u>2010/11</u>	<u>Money Owed by SCC</u>	<u>2011/12</u>
£000's		£000's
4,132	National Insurance & PAYE	3,285
4,304	Local Government Superannuation	1,843
1,009	Teacher's Superannuation	922
4,586	Department for Education	1,853
3,552	Department of Communities and Local Government	1,927
<u>17,583</u>	Balance Carried forward	<u>9,830</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

34. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	2010/11 £000's	2011/12 £000's
Opening Capital Financing Requirement - Restated	310,150	360,124
<i>Capital Investment</i>		
Intangible assets	853	945
Property Plant & Equipment	105,426	96,703
PFI Scheme - Street Lighting	2,314	3,808
Revenue Expenditure Funded from Capital under Statute	20,511	4,391
Equal Pay Provision - Reversal		(5,746)
Capitalisation - Redundancy		1,156
HRA Self Financing		73,847
<i>Sources of Finance</i>		
Capital Receipts	(3,798)	(4,835)
Government grants & other contributions	(51,827)	(61,547)
Direct Revenue Financing	(13,843)	(12,740)
MRP	(9,662)	(10,825)
Other Adjustments		(4)
Closing Capital Financing Requirement	360,124	445,277
<i>Explanation of movements in year</i>		
Increase in underlying need to borrow (supported by Government financial assistance)	8,336	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	48,986	22,917
Equal Pay Capitalisation - No longer required		(5,746)
Capitalisation - Redundancy		1,156
MRP	(9,662)	(10,825)
PFI Schemes	2,314	3,808
HRA Self Financing		73,847
Other Adjustments		(4)
<i>Increase/(decrease) in Capital Financing Requirement</i>	49,974	85,153

The opening Capital Financing Requirement has been restated to include the Equal Pay Capitalisation Direction of £12M previously redacted from the Financial Statements (**See Note 5**).

35. Leases

Council as Lessee

Finance Leases

The Council has acquired a number of Plant and Equipment Assets under finance leases. The assets acquired under these leases are carried as Plant and Equipment in the Balance Sheet at the following net amounts:

NOTES TO THE CORE FINANCIAL STATEMENTS

	31 March 2011 £000's	31 March 2012 £000's
Other Land and Buildings		
Vehicles, Plant, Furniture and Equipment	3,162	2,072
	<u>3,162</u>	<u>2,072</u>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £000's	31 March 2012 £000's
Finance Lease liabilities (net present value of minimum lease payments):		
Current	1,018	905
Non Current	1,751	846
Finance Costs payable in future years	154	55
Minimum Lease Payments	<u>2,923</u>	<u>1,806</u>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's
Finance Lease liabilities (net present value of minimum lease payments):				
Not later than one year	1,117	951	1,018	905
Later than one year and not later than five years	1,804	854	1,749	845
Later than five years	2	1	2	1
Minimum Lease Payments	<u>2,923</u>	<u>1,806</u>	<u>2,769</u>	<u>1,751</u>

There were no material contingent rents payable on the above Finance Leases by the Council in either 2010/11 or 2011/12.

Operating Leases

The Council has acquired various vehicles and equipment by entering into operating leases, with typical lives of 5 years, and also has commitments in respect of leases on Castle Way and Southbrook Rise (which were incorrectly omitted in the 2010/11 Financial Statements)

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

	Vehicles & Equipment	Land & buildings	Total	Vehicles & Equipment	Land & buildings	Total
	31 March 2011 £000's	31 March 2011 £000's	31 March 2011 £000's	31 March 2012 £000's	31 March 2012 £000's	31 March 2012 £000's
Not later than one year	96	427	523	45	267	312
Later than one year and not later than five years	66	371	437	21	104	125
Later than five years	0	0	0	0	0	0
	<u>162</u>	<u>798</u>	<u>960</u>	<u>66</u>	<u>371</u>	<u>437</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Council as a Lessor

Finance Leases

The Council has not entered into any Finance Leases whereby they are the lessor.

Operating Leases

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

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

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

	31 March 2011 £000's	31 March 2012 £000's
Not later than one year	6,612	7,860
Later than one year and not later than five years	21,561	25,008
Later than five years	1,748,647	1,697,925
	<u>1,776,820</u>	<u>1,730,793</u>

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

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There are no contingent rents receivables by the Council at 31 March 2012 and 31 March 2011.

36. PFI and Similar Contracts

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

On Balance Sheet

PFI Schools

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Hampshire Waste Contract

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

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

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

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

PFI Street Lighting

With effect from 1 April 2011, the Council has entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial 5 years of the contract, the contractor will replace all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 street lights and associated apparatus. The contractor will also be responsible for the operation and maintenance to agreed performance standards of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from central government and partly through existing Council budgets for street lighting.

Off Balance Sheet

BUPA Care Homes - Northlands, & Oak Lodge Nursing Homes

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	PFI - Schools £000's	Hampshire Waste Contract £000's	PFI - Street Lighting £000's	Total £000's
Cost or Valuation				
At 1 April 2011	58,379	13,966	2,314	74,659
Additions			3,808	3,808
Disposals				0
Revaluations	-			0
Impairments				0
At 31 March 2012	58,379	13,966	6,122	78,467
Depreciation & Impairment				
At 1 April 2011	(1,327)	(2,478)	-	(3,805)
Depreciation Charge for the Year	(1,327)	(826)	(77)	(2,230)
Disposals				0
Revaluations	-			0
Impairments				0
At 31 March 2012	(2,654)	(3,304)	(77)	(6,035)
Balance Sheet amount at 31 March 2012	55,725	10,662	6,045	72,432
Balance Sheet amount at 1 April 2011	57,052	11,488	2,314	70,854

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

	PFI - Schools £000's	Hampshire Waste Contract £000's	PFI - Street Lighting £000's	Total £000's
Balance 1 April 2011	37,068	11,861	1,603	50,532
New Schemes in 11/12			3,808	3,808
Repayments	(925)	(538)	(655)	(2,118)
Balance 31 March 2012	36,143	11,323	4,756	52,222
Due within 1 Year				
Balance 1 April 2011	925	538	655	2,118
Repayments	(925)	(538)	(655)	(2,118)
Due within 1 Year	449	581	573	1,603
Balance 31 March 2012	449	581	573	1,603
Long Term Creditor Balance 31 March 2012	35,694	10,742	4,183	50,619

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

	PFI - Schools			Hampshire Waste			PFI - Street Lighting			Total £000's
	Liability	Interest	Service Charges	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
within 1 year	449	3,071	2,656	581	906	5,485	573	928	1,099	15,748
within 2 to 5 years	4,242	11,696	9,385	2,825	3,121	23,122	988	9,210	4,550	69,139
within 6 to 10 years	6,537	12,515	14,093	5,004	2,428	31,745	2,159	12,206	6,201	92,888
within 11 to 15 years	10,277	9,034	15,652	2,914	425	23,977	4,447	10,496	7,078	84,300
within 16 to 20 years	14,637	3,621	14,278				8,351	7,158	8,080	56,125
within 21 to 25 years							7,935	1,609	5,386	14,930
Balance 31 March 2012	36,142	39,937	56,064	11,324	6,880	84,329	24,453	41,607	32,394	333,130

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	BUPA Care Homes		Total
	Northlands	Oak Lodge	
	£000's	£000's	
with in 1 year	2,390	1,371	3,761
with in 2 to 5 years	9,562	5,334	14,896
with in 6 to 10 years	11,952	6,667	18,619
with in 11 to 15 years	11,952	6,667	18,619
with in 16 to 20 years	7,960	6,667	14,627
with in 21 to 25 years		5,134	5,134
Balance 31 March 2012	43,816	31,840	75,656

Payments made in 2011/12 in respect of PFI and IFRIC 12 Service Concessions were as follows:

	Liability	Interest	Service Charges	Total
	£000's	£000's	£000's	£000's
PFI Schools	925	3,150	2,493	6,568
Hampshire Waste	538	949	5,155	6,642
PFI Street Lighting	655	485	1,073	2,213
BUPA Care Homes				
Northlands			2,390	2,390
Oak Lodge			1,032	1,032
Totals	2,118	4,584	12,143	18,845

37. Termination Benefits

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £6.7M (£4.5M in 2010/11) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. See **Note 30** for the number of exit packages and the total cost per band. Of this total £220,199 is payable in 2011/12 (£336,657 in 2010/11) to Senior Officers as disclosed in **Note 30**.

38. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council 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 Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2011/12 the City Council paid £7.5M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £7.7 M and 14.1%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and are detailed in **Note 39** below.

39. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in two post employment schemes:

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

a) Transactions Relating to Post-employment Benefits

In 2011/12, the Council paid an employer's contribution of £23.3M (2010/11 - £23M) into Hampshire County Council's Pension Fund. The employer's rate in 2010/11 was 19.1% of employees' pay. The rate set for 2011/12 to 2013/14 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's
Comprehensive Income and Expenditure Statement				
<i>Cost of Services</i>				
Current service costs	19,820	16,950	0	0
Past service costs	(96,990)	2,330	(3,670)	0
Settlements and curtailments				
<i>Financing and Investment Income and Expenditure</i>				
Interest Cost	39,640	39,280	1,910	1,800
Expected return on assets in the scheme	(28,150)	(32,180)	0	0
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	(65,680)	26,380	(1,760)	1,800
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure				
Actuarial (Gains) and Losses	(14,230)	73,170	(750)	2,880
the Comprehensive Income and Expenditure Statement	(79,910)	99,550	(2,510)	4,680
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with the Code	65,680	(26,380)	1,760	(1,800)
Actual amount charged against the General Fund Balance for Pensions in the Year:				
Employers' contributions payable to scheme	20,750	20,970		
Retirement benefits payable to pensioners			2,270	2,290

b) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2012 are as follows:

	Restated 2007/08 £000's	2008/09 £000's	2009/10 £000's	2010/11 £000's	2011/12 £000's
Present value of funded Liabilities in scheme (LGPS)	(505,100)	(571,440)	(791,560)	(726,930)	(832,180)
Present value of unfunded liabilities (Teachers & LGPS)	(33,170)	(34,740)	(38,680)	(33,900)	(36,290)
Total present value of liabilities	(538,270)	(606,180)	(830,240)	(760,830)	(868,470)
Fair value of Share of Assets in the Fund (as per Accounts)	373,960	308,210	421,250	457,280	483,950
PYA (Change in Accounting Policy)	(510)				
Restated balance	373,450	308,210	421,250	457,280	483,950
Net Asset / (Liability)	(164,820)	(297,970)	(408,990)	(303,550)	(384,520)

The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £384.5M (2010/11 £303.6M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

c) Assets and liabilities in relation to retirement benefits

NOTES TO THE CORE FINANCIAL STATEMENTS

The latest actuarial valuation of liabilities took place at 31 March 2010 this has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2012.

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

Reconciliation of present value of scheme liabilities			
Unfunded	Funded Liabilities	Unfunded	Funded Liabilities
<u>2010/11</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2011/12</u>
£000's	£000's	£000's	£000's
(38,680)	(791,560)	(33,900)	(726,930)
	(19,820)		(16,950)
(1,910)	(39,640)	(1,800)	(39,280)
	(7,080)		(6,320)
750	15,150	(2,880)	(64,920)
2,270	19,030	2,290	24,550
3,670	96,990		(2,330)
<u>(33,900)</u>	<u>(726,930)</u>	<u>(36,290)</u>	<u>(832,180)</u>
	Closing Balance at 31 March		

Reconciliation of fair value of schemes assets	
<u>2010/11</u>	<u>2011/12</u>
£000's	£000's
421,250	457,280
28,150	32,180
(920)	(8,250)
20,750	20,970
7,080	6,320
(19,030)	(24,550)
<u>457,280</u>	<u>483,950</u>
Closing Balance 31 March	

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £21.7M.

Basis for estimating assets and liabilities

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2010/11</u>	<u>2011/12</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.8	23.9
Women	24.8	24.9
Longevity at 65 for future pensioners (currently aged 45):		
Men	25.6	25.6
Women	26.7	26.8
RPI Inflation	3.7%	3.6%
CPI Inflation	2.8%	2.6%
Rate of general long-term increase in salaries	5.2%	5.1%
Rate of increase in pensions in payment	2.8%	2.6%
Rate of increase to deferred pensions	2.8%	2.6%
Discount rate	5.4%	4.8%
Commutation:		
Take-up option to convert maximum amount permitted pre 1 April 2010 pension entitlements	25.0%	25.0%
Take-up option to convert maximum amount permitted post 31 March 2010 pension entitlements	75.0%	75.0%

Expected Return on Assets

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the asset allocation for the fund at 31 March 2012.

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return for IAS19 purposes:

	Long-term rate of return expected at 31 March 2011	Asset split at 31 March 2011	Long-term rate of return expected at 31 March 2012	Asset split at 31 March 2012
	(% pa)	(%)	(% pa)	(%)
Equities	8.4	63.4	8.1	55.1
Property	7.9	7.3	7.6	7.7
Government Bonds	4.4	23.3	3.1	27.0
Corporate Bonds	5.1	1.7	3.7	1.5
Cash	1.5	4.3	1.8	4.1
Other Assets	8.4	0.0	8.1	4.6
Total	<u><u>7.1</u></u>	<u><u>100.0</u></u>	<u><u>6.4</u></u>	<u><u>100.0</u></u>

d) Actuarial Gain / Losses Relating to Pensions

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 and are analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2012:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Actuarial Gain/(Loss) for Year										
	2007/08		2008/09		2009/10		2010/11		2011/12		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	(32,240)	(8.6)	(102,840)	(33.4)	85,600	20.3	(920)	(0.2)	(8,250)	(1.7)	of scheme assets
Experience gains and losses on pension liabilities	(3,030)	(0.6)	(2,060)	(0.3)	6,610	0.8	3,240	0.4	(8,440)	(1.0)	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	101,490	18.9	(23,340)	(3.9)	(187,060)	(22.5)	12,660	1.7	(59,360)	(6.8)	of scheme liabilities
	<u>66,220</u>		<u>(128,240)</u>		<u>(94,850)</u>		<u>14,980</u>		<u>(76,050)</u>		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £292.6M.

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

40. Contingent Liabilities/ Assets

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

Equal Pay Claims

The council has included in its accounts a provision for the estimated cost of compensation payments arising from the 1997 Single Status Agreement, which are currently under negotiation in relation to a specific group of outstanding equal pay claims (see **Note 22** for further details). However, the Council recognises the potential that further equal pay claims may arise, some of which may lead to additional compensation agreements or to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

Health and Safety - Asbestos

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

Concessionary Fares

The Council has one outstanding claim under our Concessionary Fares scheme for specific costs 'to cover the costs of providing additional vehicle capacity to cope with growth in patronage brought about by concessionary travel'. The claim is from First Hampshire Dorset but at this time the Council does not have sufficient information from this operator to substantiate the claim.

Employment Tribunal

The Council was notified in April 2011 that, Unison, Unite and UCATT had issued an Employment Tribunal claim regarding procedural issues around consultation of the proposed 2011/12 budget savings. The maximum potential liability if the claim is successful would be approximately £12.6M. The Council refutes the claim in full, asserts that no award should be made, and has submitted 'Grounds of Resistance' to the Employment Tribunal.

Thornhill Plus You

The Thornhill Plus You (New Deal for Communities - NDC) succession plan for the successor body PYL (Plus You Limited) no longer requires to be signed off by the Department for Communities and Local Government (DCLG). However, DCLG officials are currently looking back at spend in all NDC areas to provide assurance that taxpayers' funds have been properly used. This may mean recovery

NOTES TO THE CORE FINANCIAL STATEMENTS

of some grant from Southampton City Council. This assessment has not yet been completed therefore it is not possible to quantify the extent of any potential contingent liability.

41. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any Financial Relationships which under the Code's classification would require the Council to produce Group Accounts.

In 2011/12 there were no relationships which would require the Council to produce Group Accounts.

42. Grants and Contributions

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

<u>2010/11</u>		<u>2011/12</u>	
£ 000's		£ 000's	
18,032	Balance Brought Forward	33,256	
38,712	Amounts Received in Year	36,218	
<u>(23,488)</u>	Amounts Applied to Finance Capital in year	<u>(33,309)</u>	
<u>33,256</u>	Balance Carried forward	<u>36,165</u>	

As part of 2011/12 closedown it was noted that £61,000 of Revenue Contributions to Capital had been incorrectly classified as Capital Grants and Contributions Receipts in Advance. Therefore, the opening balance for 10/11 and 11/12 were amended by £61,000 (**See also Note 5 to the Core Financial Statements**).

Capital Grants and Contributions have been credited to the CIES as follows:

<u>2010/11</u>		<u>2011/12</u>	
£000's		£000's	£000's
Grants			
Department for Children, Schools and Families			
8,539	Framework Academies	17,891	
3,333	General Sure Start	0	
92	Basic Need Grant	4,143	
8,872	Standards Fund	1,400	
0	Targeted Capital Fund	1,493	
2,611	Schools Devolved Formula Grant	1,347	
1,537	Other	1,185	27,459
520	Department of Health		721
3,554	Department for Communities and Local Government		1,732
65	Department for Environment, Food and Rural Affairs		6
3,125	Heritage Lottery Fund		5,840
1,837	Learning Skills Council		3,661
279	Department for Transport		4,253
65	Department for Media, Culture & Sport		0
488	Other		0
<u>34,917</u>			<u>43,672</u>
9,403	Contributions		3,661
<u>44,320</u>	Total		<u>47,333</u>
28,422	Credited to Capital Grants and Contributions CIES		43,670
15,898	Credited to Cost of Services		3,663
<u>44,320</u>	Total		<u>47,333</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

General Government Grants (Revenue) have been credited to the CIES as follows:

<u>2010/11</u> £000's		<u>2011/12</u> £000's
	General Government Grants	
14,344	Revenue Support Grant	24,758
19,104	Area Based Grant	0
	Local Services Support Grant	1,088
	Early Intervention Grant	10,558
	Housing and Council Tax Benefit Grant	2,253
	Learning Disability and Health Reform Allocation	5,185
	Council Tax Freeze Grant	2,065
	DCLG New Homes Bonus Scheme	944
	Other	43
<u>33,448</u>		<u>46,894</u>

43. Assets Held for Sale

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

	Current	
	2011	2012
	<u>£000</u>	<u>£000</u>
Balance at start of year	0	0
Assets newly classified as held for sale:		
Property, Plant and Equipment	0	4,931
Intangible Assets	0	0
Other	0	0
Revaluation Losses	0	0
Revaluation Gains	0	0
Impairment losses to CIES	0	0
Balance at end of year	<u>0</u>	<u>4,931</u>

HOUSING REVENUE ACCOUNT

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

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

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

Comprehensive Income and Expenditure Statement

<u>2010/11</u> £000's	<u>Expenditure</u>	<u>Notes</u>	<u>2011/12</u> £000's
15,210	Repairs and Maintenance		14,594
15,395	Supervision and Management		15,744
4,676	Rents, Rates, Taxes and Other Charges		4,043
8,677	Negative Housing Revenue Account Subsidy Payable	9	7,493
234,087	Depreciation Revaluation and Impairment of non-current assets	8	37,672
42	Debt management costs		50
472	Movement in the allowance for bad debts		438
(9,826)	Exceptional Item to Credit Past Pension Costs		
	Exceptional Item - Council Housing Self -Financing Settlement	1	73,847
268,733	Total Expenditure		153,881
	Income		
(56,999)	Dwellings Rent		(60,889)
(1,254)	Non-Dwelling Rents		(1,252)
(5,444)	Tenant Charges for Services & Facilities		(4,913)
29	Contributions Towards Expenditure		147
(63,668)	Total Income		(66,907)
	Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		86,974
205,065			
351	HRA services' share of Corporate and Democratic Core		355
205,416	Net Cost/ (Income) for HRA Services		87,329
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
	Gain or (loss) on the sale of HRA non-current assets		0
(70)	Capital Receipts not matched by Disposal of Assets		(67)
424	Investment Property Revaluation Movements	8	138
2,047	Interest payable and similar charges		2,936
(40)	Interest and investment income	7	(47)
1,308	Pensions interest cost and expected return on pension assets	13	816
(5,741)	Capital grants and contributions receivable		(931)
203,344	(Surplus) or deficit for the year on HRA services		90,174

HOUSING REVENUE ACCOUNT

Statement of Movement on the HRA Balance

<u>2010/11</u> £000's		<u>2011/12</u>	
		£000's	£000's
(1,589)	Balance on the HRA at the end of the previous year		(1,623)
203,344	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	90,174	
(198,806)	Adjustments between accounting basis and funding basis under statute	(89,959)	
<u>4,538</u>	(Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves.		215
(4,573)	Transfer to or (from) reserves		<u>(1,213)</u>
<u>(34)</u>	(Increase) or decrease in year on the HRA		<u>(998)</u>
<u>(1,623)</u>	Housing Revenue Account surplus carried forward		<u>(2,621)</u>

Note to Statement of Movement on the HRA Balance

<u>2010/11</u> £000's		<u>2011/12</u>	
		£000's	£000's
	Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
70	Capital Receipts not matched by Disposal of Assets	67	
6,334	Capital grants and contributions applied	2,568	
103	Removal of HRA Effective Interest Rate Calculation	43	
(83)	Amortisation of Item 8 Discount	(84)	
(224,049)	Impairment and Revaluation of Fixed Assets	(24,646)	
0	Gain or loss on sale of HRA fixed assets	0	
6,583	Net Charges made for retirement benefits in accordance with IAS 19	(2,584)	
	Exceptional Item - Council Housing Self -Financing Settlement	(73,847)	
<u>(211,042)</u>			<u>(98,483)</u>
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
(68)	Transfer to/(from) Major Repairs Reserve	(68)	
2,248	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,133	
<u>10,056</u>	Capital Expenditure funded by the HRA	<u>6,459</u>	
<u>12,236</u>			<u>8,524</u>
<u>(198,806)</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year		<u>(89,959)</u>

HOUSING REVENUE ACCOUNT

1. Prior Year Adjustment & Exceptional Items

On 26 March 2012 the authority applied to PWLB for loans totalling £73.8M to fund the HRA self financing buy-out. On 28 March 2012 the authority paid £73.8M to DCLG in full and final settlement for the HRA Self Financing buy-out. The interest charges that were incurred for the period 28 March to 31 March were funded by a contribution from the DCLG so there was no net cost to the HRA. The Sum of £73.8M is included as an exceptional item.

2. Council House Rents

At 31 March 2012, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 5.66% (31 March 2011 – 6.32%). The total arrears were £2.8M (31 March 2011 - £2.8M). Rents written off during the year amounted to £324,000 (last year £403,000).

The main sources of rent income after allowing for voids of £1M (last year £1.1M) are set out in the following table:

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
22,693	Rent met by Tenants	24,064
34,306	Rent Rebates	36,825
<u>56,999</u>		<u>60,889</u>

3. Housing Stock

During the year 2.32% (1.71% for 2010/11) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2011/12 was £69.73 a week (£65.15 for 2010/11). The stock at the year-end was made up as follows:

<u>2010/11</u>		<u>2011/12</u>
17,064	Stock at 1st April	16,952
(35)	Less: Sales	(28)
0	Plus: LA New Build	37
(77)	Other/Demolitions	(85)
<u>16,952</u>	Stock at 31st March	<u>16,876</u>
	<u>Consisting of :</u>	
5,435	Houses	5,451
11,501	Flats	11,409
16	Bungalows	16
<u>16,952</u>		<u>16,876</u>

4. Major Repairs Reserve

<u>Total</u>		<u>Land</u>	<u>Dwellings</u>	<u>Other</u>	<u>Total</u>
<u>2010/11</u>		<u>2011/12</u>	<u>2011/12</u>	<u>2011/12</u>	<u>2011/12</u>
£000's		£000's	£000's	£000's	£000's
0	Opening Balance	0	0	0	0
(10,462)	Receipts in Year	0	(13,096)	(68)	(13,164)
10,462	Payments in Year	0	13,096	68	13,164
<u>0</u>	Closing Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

HOUSING REVENUE ACCOUNT

5. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
33,584	Housing Stock	22,123
0	Other Property	0
0	Council Housing - Self Financing Settlement	73,847
33,584	Total Capital Expenditure	95,970
<u>Capital Expenditure Source of Finance</u>		
£000's		£000's
0	Capital Receipts	0
1,496	Supported Borrowing	0
5,304	Unsupported Borrowing	73,847
6,101	Grants	2,222
10,394	Transfer from Major Repairs Reserves	13,096
233	Contributions	346
10,056	Direct Revenue Funding	6,459
33,584	Total Financing	95,970

6. 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>2010/11</u>		<u>2011/12</u>
£000's		£000's
495	Opening Balance at 1st April	716
	Receipts in Year:-	
	Sale of Assets	
2,010	Council Housing	1,861
222	Land, Buildings & Equipment	1,136
17	Repayment of Advances	21
2,744		3,734
(70)	Allowable deduction arising from Disposal	(67)
2,674		3,667
	Application in Year:-	
(550)	Inter Portfolio Transfer	(496)
0	Financing of new HRA Capital Expenditure	0
(1,408)	Pooled Receipts	(1,319)
0	Other Adjustments	0
716	Closing Balance at 31st March	1,852

HOUSING REVENUE ACCOUNT

7. Interest Received

During 2011/12 the Housing Revenue Account received interest amounting to £46,000, (2010/11 £40,000). The main sources of this income are detailed in the table below.

<u>2010/11</u> £000's		<u>2011/12</u> £000's
2	Council House Mortgages	1
38	Interest on Other Funds & Balances	46
<u>40</u>		<u>47</u>

8. 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 in **Accounting Policies (Note 1u)**.

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2011 was £1,260M, which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation. The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2012.

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

HOUSING REVENUE ACCOUNT

Movements in Fixed Assets During 2011/12					
	Property, Plant and Equipment			Investment	Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Investment	
	£000's	£000's	£000's	£000's	£000's
Cost or Valuation					
At 1 April 2011	496,642	4,893	648	7,929	510,112
Additions	22,123				22,123
Disposals	(2,999)				(2,999)
Reclassifications					0
Revaluations	(20,655)	(376)		(82)	(21,113)
Impairments	(3,445)	(32)		(56)	(3,533)
At 31 March 2012	491,666	4,485	648	7,791	504,590
Depreciation and Impairment					
At 1 April 2011	0	0	(307)	0	(307)
Depreciation charge for 2011/12	(13,096)		(68)		(13,164)
Disposals					0
Reclassifications					0
Revaluations					0
Impairments					0
At 31st March 2012	(13,096)	0	(375)	0	(13,471)
Balance Sheet amount at 31st March 2012	478,570	4,485	273	7,791	491,119
Balance Sheet amount at 31st March 2011	496,642	4,893	341	7,929	509,805
Nature of Asset Holding					
Owned	478,570	4,485	273	7,791	491,119
Finance Lease					0
PFI					0
	478,570	4,485	273	7,791	491,119

9. General Housing Subsidy

The Government pays a General Housing Subsidy to the Housing Revenue Account. This is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. With effect from the 1 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 2011/12 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2011/12:

HOUSING REVENUE ACCOUNT

<u>2010/11</u>			<u>2011/12</u>	
£000's	£000's		£000's	£000's
-		Housing Defects Act		-
		Housing Subsidy Entitlement in Year		
	34,689	Management and Maintenance	35,672	
	10,394	Major Repairs Allowance	13,096	
	2,859	Charges for Capital	3,541	
	0	Admissible Allowance	0	
	0	Anti Social Behaviour Allowance	0	
	1,112	Caps & Limits Adjustment	0	
	(2)	Interest on Receipts	(1)	
	<u>(57,729)</u>	Guideline Rent Income	<u>(59,801)</u>	
(8,677)				(7,493)
0		Previous Years Subsidy Adjustment		0
<u>(8,677)</u>		Total Housing Subsidy		<u>(7,493)</u>

10. Impairment Allowance for Bad Debts

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

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
628	MRC Bad Debt Provision	613
<u>1,231</u>	Rents Bad Debt Provision	<u>1,345</u>
<u><u>1,859</u></u>		<u><u>1,958</u></u>

11. 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.

12. Direct Revenue Financing Reserve

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

<u>2010/11</u>		<u>2011/12</u>
£000's		£000's
	Direct Revenue Financing Reserve	
(6,283)	Direct Revenue Financing Balance Brought Forward	(2,303)
(6,076)	Contribution From Revenue In Year	(6,884)
<u>10,056</u>	Applied for Capital	<u>6,459</u>
<u><u>(2,303)</u></u>	Balance Carried Forward	<u><u>(2,728)</u></u>

13. Pensions

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

HOUSING REVENUE ACCOUNT

Local Government Pension Scheme				
	2010/11		2011/12	
	£000's	£000's	£000's	£000's
Income and Expenditure Account				
Net Cost of Service				
Current service costs		1,935		1,554
Past service costs		(9,825)		214
<i>Net Operating Expenditure</i>				
Interest Cost	4,056		3,767	
Expected return on assets in the scheme	(2,748)	1,308	(2,951)	816
<u>Amounts to be met from HRA</u>				
Movement on pensions reserve		8,830		(451)
<u>Actual amount charged against HRA</u>				
Employer's contributions payable to scheme		<u>2,248</u>		<u>2,133</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.

Income and Expenditure for the Year Ended 31 March 2012				
2010/11		Notes	2011/12	
£000's			£000's	£000's
	Income			
(78,644)	Council Tax	2	(79,685)	
	Transfers from the General Fund			
(18,214)	- Council Tax Benefits	3	(18,492)	
(950)	- Local Council Tax Discount		(976)	
	- Transitional Relief			
<u>(97,808)</u>				<u>(99,153)</u>
(83,798)	Income Collectable from Business Ratepayers			(97,244)
	Contributions towards Previous Year's (Deficit)/ Surplus			
1,142	- Southampton City Council			3,245
134	- Hampshire Police Authority			383
57	- Hampshire Fire & Rescue Service			161
<u>(180,273)</u>	Total Income			<u>(192,608)</u>
	Expenditure			
	Precepts			
81,994	- Southampton City Council Precept	4	82,586	
9,677	- Hampshire Police Authority Precept	4	9,747	
4,062	- Hampshire Fire & Rescue Authority Precept	4	4,091	
<u>95,733</u>				<u>96,424</u>
	Business Rates			
81,967	- Payment to National Pool		95,513	
230	- Interest on Overpayments		176	
326	- Costs of Collection	5	326	
<u>82,523</u>				<u>96,015</u>
	Bad and Doubtful Debts			
	Council Tax			
1,186	- Write Offs	6	768	
(482)	- Provisions	6	606	
<u>704</u>				<u>1,374</u>
	Business Rates			
1,169	- Write Offs	6	746	
106	- Provisions	6	482	
<u>1,275</u>				<u>1,228</u>
180,235	Total Expenditure			195,041
<u>(38)</u>	(Surplus) / Deficit For the Year			<u>2,433</u>
(4,047)	(Surplus) / Deficit Brought Forward			(4,085)
<u>(4,085)</u>	Total (Surplus) / Deficit			<u>(1,652)</u>

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 43.3p in the pound for 2011/12 (41.4p for 2010/11). The small business rate relief multiplier for 2011/12 is 42.6p in the pound (40.7p for 2010/11). The rateable value at 31 March 2012 was £261.0M (£263.9M at 31 March 2011). 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 2011/12, paid directly to the Comprehensive Income and Expenditure Statement, amounted to £80.1M (£87.4M for 2010/11).

2. Council Tax Base

<u>Council Tax Base</u>			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Dis	51	5/9	28
Band A	24,350	6/9	16,234
Band B	27,845	7/9	21,657
Band C	18,547	8/9	16,486
Band D	7,834	9/9	7,834
Band E	2,611	11/9	3,191
Band F	1,219	13/9	1,761
Band G	360	15/9	600
Band H	3	18/9	6
	<u>82,820</u>		<u>67,797</u>

Taking the total Band D equivalents of 67,797 and multiplying this by the standard Council Tax of £1,446.84 gives a total estimated income from taxpayers of £98.1M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2011/12 was 98.3%, giving a net Council Tax Base of 66,644. Multiplying this by the standard Council tax of £1,446.84 gives the total precepts on the Collection Fund of £96.4M.

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 Authority.

5. Allowance for NNDR Collection

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

THE COLLECTION FUND

6. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.4M in 2011/12. At 31 March 2012 the provision totalled £5.7M (SCC share £4.9M) against a liability of £8.0M (SCC share £6.9M).

The contribution to the NNDR Impairment Allowance was £1.2M in 2011/12. At 31 March 2012 the provision totalled £1.9M against a liability of £3.0M.

7. Collection Fund Balance

The year end balance on the Collection Fund of £1.7M 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 £1.4M and is shown as a revenue balance in the Balance Sheet. The remaining £0.3M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund balance between 31 March 2011 and 31 March 2012 was 2.1M. This is shown within the Comprehensive Income and Expenditure Account.

TRUST AND OTHER FUNDS

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included in 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 in this section.

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.

The Other Funds are analysed as follows:

	<u>01 April 2010</u> £000's	<u>Receipts</u> £000's	<u>Payments</u> £000's	<u>1 April</u> <u>2011</u> £000's
Other Funds				
Wessex Slaughterhouse Board	(98)	(1)	3	(96)
Criminal Injuries Compensation Board	(5)		3	(2)
Total	<u>(103)</u>	<u>(1)</u>	<u>6</u>	<u>(98)</u>

The Trust Funds are:

- **Chipperfield Trust** – Purchase works of art.
- **L C Smith Bequests** – Helps 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 which consist of several funds of small value as follows:

- **Ida Bany Bequest** – Purchase books about America
- **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** - Helps maintain the Merchants Navy Memorial in Holyrood Church.
- **Cemeteries Legacy** – Helps maintain Cemeteries.

TRUST AND OTHER FUNDS

Statement of Financial Activities for the year ending 31 March 2012

2010/11		2011/12			
Net £000's		Notes	Expenditure £000's	Income £000's	Net £000's
	Resources expended and (incoming resources)	4/5/7			
(4)	Chipperfield Trust		6	(3)	3
	LC Smith Bequest				
30	Miss Orris Bequest		2	(1)	1
10	Aldridge Bequest		17	(10)	7
	Minor Trust Funds				
36	Total net incoming resources before other recognised gains and losses		25	(14)	11
	Unrealised (gains)/losses on investment assets	6			
(1)	Chipperfield Trust			(12)	(12)
(2)	Aldridge Bequest			(6)	(6)
(3)	Total Unrealised (gains)/losses on investment assets			(18)	(18)
	Net movement in funds				
(5)	Chipperfield Trust				(9)
	LC Smith Bequest				
30	Miss Orris Bequest				1
8	Aldridge Bequest				1
	Minor Trust Funds				
33	Total net movement in funds				(7)
	Reconciliation of funds				
	Total funds brought forward			Net movement in funds	Total funds Carried Forward
(143)	Chipperfield Trust			(9)	(152)
(33)	LC Smith Bequest				(33)
(118)	Miss Orris Bequest			1	(117)
(350)	Aldridge Bequest			1	(349)
(39)	Minor Trust Funds				(39)
(683)	Total funds			(7)	(690)

TRUST AND OTHER FUNDS

Balance Sheet as at 31 March 2012

31 March 2011 £000's		31 March 2012 £000's
	Fixed Assets	
	Investments	
65	Chipperfield Trust	77
190	Aldridge Bequest	196
4	Minor Trust Funds	4
259	Total Fixed Assets	277
	Currents Assets	
	Internal Investments Accounts and Cash	
76	Chipperfield Trust	73
33	LC Smith Bequest	33
118	Miss Orris Bequest	117
160	Aldridge Bequest	153
35	Minor Trust Funds	35
422	Total Investment Accounts	411
	Debtors	
2	Chipperfield Trust	2
2	Total Debtors	2
683	Net Current Assets	690
683	Net assets	690
	Trust Funds	
150	Chipperfield Trust	147
(7)	Chipperfield Trust Unrealised Gains/(Losses) Account	5
33	LC Smith Bequest	33
118	Miss Orris Bequest	117
268	Aldridge Bequest	261
82	Aldridge Bequest Unrealised Gains/(Losses) Account	88
40	Minor Trust Funds	40
(1)	Minor Trust Funds Unrealised Gains/(Losses) Account	(1)
683		690

TRUST AND OTHER FUNDS

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

There have been no changes.

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

2010/11		<u>Analysis of Incoming Resources</u>				2011/12
		Sales £ 000's	Other £ 000's	Dividends - Unit Trusts and Gilts £ 000's	Investment Interest* £ 000's	
(4)	Chipperfield Trust LC Smith Bequest			(3)		(3)
(1)	Miss Orris Bequest				(1)	(1)
(10)	Aldridge Bequest Minor Trust Funds			(9)	(1)	(10)
(15)	Total			(12)	(2)	(14)

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

8. Other expenditure disclosures

Expenditure for the year was nil for the following items

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

GLOSSARY

1. Accruals

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

2. 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 Adjustment Account (CAA)

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

6. Capital Expenditure

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

7. Capital Receipts

The proceeds from the sale of capital assets.

8. Community Assets

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

9. Consistency

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

10. 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.

11. Council Tax

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

12. 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

13. Debtor

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

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 arm's length transaction.

16. Financial Assets

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

17. Finance Lease

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

18. Financial Instrument

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

19. Financial Liability

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

20. Financial Reporting Standard (FRS)

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

21. Property, Plant and Equipment

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

22. General Fund

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

GLOSSARY

23. Going Concern

The concept that the Council 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 Council.

25. Heritage Assets

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

26. Housing Revenue Account

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

27. Impairment

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

28. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

29. International Financial Reporting Standard (IFRS)

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

30. Long Term Investments

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

31. 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.

32. Materiality

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

GLOSSARY

33. Money Market Funds

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

34. National Non Domestic Rate

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

35. 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.

36. 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.

37. Net Expenditure

Total expenditure for a service less directly related income.

38. Net Realisable Value

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

39. Non-Operational Assets

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

40. Operating Leases

A lease other than a finance lease.

41. Operational Assets

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

42. Post Balance Sheet Events

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

43. Revaluation Reserve

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Financial Statements is signed by the responsible financial officer.

GLOSSARY

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

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

45. Revenue Expenditure/Income

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

46. Statement of Standard Accounting Practice (SSAP)

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

47. 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.

48. Supported Borrowing

Borrowing that is supported by Government financial assistance.

49. Unsupported Borrowing

Borrowing that is not supported by Government financial assistance.

50. Useful Life

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

ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at

<http://www.southampton.gov.uk/council-partners/decisionmaking/corporategovernance/> or can be obtained from the:

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

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are as described below and include arrangements for:

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

There is a clear vision of the Council's purpose and intended outcomes for citizens and service users that is communicated both within the organisation and to stakeholders.

The City of Southampton Strategy sets out a 20-year vision, up to 2026, which underpins aspirations for the city. The key priorities and challenges within this strategy were reviewed and revised during the course of 2010-11.

ANNUAL GOVERNANCE STATEMENT

In April 2011 Southampton Connect was established as a successor to the Southampton Partnership to build upon our unique city collaborative ethos, relationships and networks. Southampton Connect brings together the private, public, community and voluntary sectors to work together in tackling the key city challenges facing Southampton thereby securing quality of life improvements for all those who live, work and visit the city.

The Southampton Connect Plan 2011-14 was launched in October 2011 and was developed in order to formalise Southampton Connect's work programme. It includes a long term vision for the city and describes a number of 'Priority Projects' that Southampton Connect will deliver. The Plan is based on a single comprehensive assessment of needs in the city, supported by resident feedback and both city profile and ward profiles.

The Southampton City Council Plan 2011-14 sets out the most important things that the council wants to achieve by 2014. It sets out the Council's commitment and overall approach to secure ongoing improvements across the range of council services provided to residents, businesses and visitors to the city. The Council Plan is updated annually to reflect achievements in the previous period and priorities for the forthcoming period.

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

The Council has seven priorities and four key City challenges that shape the Council's policy framework plans and budget, and hence the Council's policy decision making and resource allocation process.

The Council has adopted a Code of Corporate Governance ("CCG") which identifies in one document how the Council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Monitoring Officer and is reviewed formally by Council's Governance Committee (formerly the Standards and Governance Committee) on a biennial basis. The Governance Committee assumed the responsibilities of both the Audit Committee and Standards & Governance Committee with effect from May 2012.

• Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources

The Southampton City Council Plan 2011-14 includes information 'How we performed on our key indicators', the key achievements in the previous period. It also includes Customer Feedback and the

Challenges, Opportunities and Risks identified for the forthcoming period. In respect of the seven priorities, the Plan sets out 'What we said we would do in the previous period', 'How did we do' and 'What we will do' in the forthcoming period'.

• Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council has a Constitution that sets out how it operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose.

The Constitution is divided into 15 Articles and sets out the detailed rules governing the Council's business. The Constitution may be accessed on the internet at:

<http://www.southampton.gov.uk/council-partners/decisionmaking/constitution.aspx>

ANNUAL GOVERNANCE STATEMENT

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council's Constitution contains both an Officer Code of Conduct and a new Members Code of Conduct under the Localism Act 2011. In addition, a 'Disciplinary Policy and Code of Conduct' is in place for employees and sets out the standards of service and conduct that are expected of employees. The Council also has in place an Anti Fraud and Anti Corruption Policy and Strategy which is published on the internet.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution includes information on how the council operates, how decisions are made and the role of overview and scrutiny. The Head of Legal, HR and Democratic Services conducts an annual review of the Council's constitutional arrangements, which is considered by the Council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the Council in May. All reports submitted to the Executive, the Council, a Committee or a Sub-Committee for a decision must receive corporate clearance in respect of legal, financial and policy implications prior to publication. Report authors' are also required to identify and report on any significant risks within the body of the report. In addition, there is published information on the Council's internet site regarding how the system of decision-making in Southampton works and how the public can have their voice heard ('Having Your Say').

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

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on "The role of the chief financial officer in local government" (2010). The Head of Finance and IT (CFO) is professionally qualified and is a key member of the Management Board of Directors, helping to develop and implement strategy and deliver the strategic objectives of the authority. The CFO has direct access to the Chief Executive and is actively involved in ensuring all immediate and longer term risks and opportunities are considered, and ensuring the strategic objectives are aligned to the longer-term finance strategy. The CFO has an input into all major decisions, and advises on financial matters to the Executive. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose.

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

The Council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance to on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

'Corporate Standards' are published on the intranet and provide a summary of the most significant and important rules in the areas where the Council must achieve compliance. They cover Legality and Corporate Governance (including decision-making, Finance, IS/IT, Property and Procurement).

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

ANNUAL GOVERNANCE STATEMENT

• Whistle blowing and for receiving and investigating complaints from the public

The Council is committed to the highest possible standards of openness, probity and accountability and has in place both an Anti Fraud and Anti Corruption Policy and Strategy and a 'Whistle blowing' Duty to Act Policy. The latter reflects the legal framework and obligation on the Council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment.

Complaints from the public are dealt with in accordance with the Complaints Policy which has been formally approved and is published on the intranet. Separate policies are in place relating to complaints about Councillors and complaints in relation to social services and schools.

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

The Council has a Member Development Strategy in place which is aimed at providing a long-term view to learning and development whilst remaining sufficiently flexible to reflect changing priorities. The Member learning and development programmes include the following:-

- Induction Programme;
- Member Mentoring Scheme;
- Regulatory Panel training;
- Skills training and workshops;
- Member Briefing sessions.
- Personal Development Planning;
- Cabinet Member training;
- Scrutiny training;
- Governance;

Priorities for learning and development form part of the annual performance appraisal process with a requirement that training priorities link to achievement of objectives and service plans as well as ongoing professional competence. Individual learning and development priorities are then used to develop Directorate Learning and Development plans. In addition, a 'Foundations of Management' programme is in place for all new managers who require an understanding of what is expected of them and provides an opportunity to develop core skills that will assist them in performing effectively in their role.

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

The views of customers are at the heart of the Council's service delivery arrangements and the views of customers and staff are actively sought by services via questionnaires, text messaging, focus groups and community consultation events. 'Consultation' and 'Other ways to have your say' internet pages provide opportunity for stakeholders to voice their opinions and shape service delivery. For the first time, the Council has led a Southampton Connect effort to produce a single Southampton Profile which reflects consultation feedback where this is available. This is in addition to taking account of formal external assessments and comparative benchmarking data and other market research which the council uses to get opinions and perceptions on a variety of issues affecting life in the city. The feedback from stakeholders informed the Council Plan (2011-14).

In addition, Southampton Connect brings together the private, public, business, community and voluntary sectors to work together in tackling the key city challenges. This approach builds upon the city's unique collaborative ethos, relationships and networks, and represents a new way of working together to improve Southampton for the benefit of all those who live, work or visit the city.

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

A new revised Partnership Code is in place and forms part of the Council's Constitution. The Code has been developed to ensure that sound governance arrangements are in place. This forms an important element of the Council's overall framework for partner and partnership engagement and will continue to be reviewed as the partnership working arrangements develop and evolve.

ANNUAL GOVERNANCE STATEMENT

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

- the work of Members/Officers within the Council;
- audit and other periodic reports from the Head of Internal Audit;
- the Annual report and opinion of the Head of Internal Audit;
- the Audit Committee (now called the Governance Committee);
- reports received from service review agencies or inspectorates, and
- the external auditors in their annual governance report and the Annual Audit Letter.

• **The Authority**

The Council's Constitution forms the cornerstone of effective corporate governance. Whilst the Council's constitutional arrangements continue to be recognised as being of a high standard, Full Council agreed in 2002 that it would, on an annual basis, robustly review the Constitution and its operation. Full Council is the ultimate decision-making body as to the Council's Constitution. The purpose of the annual review and subsequent report is to bring forward any proposed changes to the Constitution, these having been considered by Governance Committee with a view to building upon the constitutional arrangements for the Council.

• **The Executive**

The Executive ('the Cabinet') make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council, and planning and licensing matters which are dealt with by specialist regulatory Panels. Proceedings of the Cabinet take place in accordance with Article 7 of the Council's Constitution.

• **Audit Committee**

The Council has a formally constituted Audit Committee (now called the Governance Committee) whose role it is to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

A range of service reports are submitted to the Governance Committee including the following:

- the Head of Internal Audit's annual report and opinion;
- review of the effectiveness of the system of internal audit;
- the Internal Audit Strategy and annual operational plan;
- summary internal audit reports across all portfolios;
- reports of external audit and inspection agencies;
- assurances that action is being taken on risk and control-related issues identified by the internal and external auditors and other assurance providers;
- the effectiveness of the Council's internal control, risk management and associated anti-fraud and anti-corruption arrangements;
- Treasury management Strategy; and
- the Council's Annual Governance Statement, financial statements and external auditor's opinion;

• **Standards and Governance Committee**

The Council has a Standards and Governance Committee (now called the Governance Committee) with specific responsibility 'to lead on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal conduct'. The Standards and Governance Committee receives a number of reports during the year including the draft report on 'Changes to the Constitution' (in its governance role) prior to the

ANNUAL GOVERNANCE STATEMENT

report being presented to Full Council. This Committee is also responsible for reviewing and approving the updated Code of Corporate Governance.

Note: From May 2012 a new 'Governance Committee' was created and has assumed the responsibilities of both the Audit Committee and Standards & Governance Committee.

• Overview and Scrutiny Committees

Overview and Scrutiny is a key mechanism for enabling Councillors to represent their constituents' views to the Executive to inform policy development. There is an Overview and Scrutiny Management Committee (parent committee) which manages this process and, in addition, a Health Scrutiny Panel. The Committee appoints other Panels as necessary to undertake the statutory review of the activities of key partners and to carry out scrutiny inquiries, which support the work of the Executive and the Council as a whole. These arrangements allow citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, relationship with key partners and local service delivery. The Overview and Scrutiny Management Committee also monitors the decisions of the Executive. Members can 'call-in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Executive reconsider the decision. The Overview and Scrutiny Management Committee are also consulted by the Executive on forthcoming decisions and the development of Policy Framework plans.

• Risk Management

The Council's overall strategy and approach to risk management is overseen by the Management Board of Directors.

The Council has in place a Risk Management Strategy and Policy which is reviewed annually and submitted to the Governance Committee for approval. In addition, an annual Risk Management Action Plan is developed with progress against the agreed actions being reported to the Governance Committee bi-annually. The Council has in place a 'Strategic Risk Register' which seeks to identify the key risks that may prevent or have a significant adverse affect on the achievement of the Council's key objectives. In addition, each Directorate develops and maintains its own risk register based on the 'key priorities and risks' identified as part of the corporate business planning process. Risk management also features as an integral part of the Council's Project Management methodology.

• Chief Financial Officer

The Council conforms to the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer (CFO) in Local Government (2010).

• Internal audit

The Council has a shared Internal Audit service whose role is to provide an assurance function that provides an independent and objective opinion to the Council on risk management, control and governance. Internal audit may also provide an independent and objective consultancy service, specifically to help management improve the Council's internal control, risk management, and governance. The Council's Internal Audit Strategy was approved by the Audit Committee in September 2007 and reviewed in June 2009. The Strategy outlines how the service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on the Council's internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of the Council's internal control, risk management and governance systems through periodic audit plans, in a way which affords due consideration to the Council's key priorities and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within the Council;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance, consultancy and advisory services by internal audit.

ANNUAL GOVERNANCE STATEMENT

The Head of Internal Audit reports to the Governance Committee including progress against the annual internal audit operational plan and bringing to the attention of the Committee any significant control issues. The Head of Internal Audit has the authority to independently report at any time to the Chief Executive, Head of Finance and IT (CFO), Officers and Members.

In accordance with the Accounts and Audit (England) Regulations 2011, an annual review of the effectiveness of the system of internal audit is undertaken and reported to the Governance Committee. The Council's external auditors seek to place reliance on the work carried out by internal audit wherever possible.

In 2011/12 the delivery of a shared audit service with Hampshire County Council was progressed to build on the shared role for the Head of Internal Audit and this formally commenced in February 2012. This will further enhance the service providing depth of experience and expertise and improving resilience.

• Other review/assurance mechanisms

Assurances are sought from Directors regarding the effectiveness of the key controls within their areas of operation. The assurances are obtained via a 'Self Assessment' statement which is required to be completed in full and with due diligence by each Director. Internal Audit undertakes a sample check of the completed self assessments and supporting evidence and provide an overall opinion on the level of assurance that can be placed on the returns.

The review is further informed via the completion of a "Controls Assurance Framework" document developed in line with CIPFA guidance. It identifies the key components of the Council's overall governance and internal control environment. The document records the key controls in place and sources of assurance and identifies any gaps in key controls or assurance noting any improvements planned for the forthcoming period to address the identified gaps.

5. SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

	Issue	Action	Responsible Officer	Target for completion
1.	The Partnership Code and Toolkit, that was adopted as part of the Council's constitution in 2009, no longer reflects the revised approach to partnership working.	A revised Partnership Code has been developed and adopted as part of the Council's Constitution. The Code is intended to ensure that sound governance arrangements are in place and forms an important element of the Council's overall framework for partner and partnership engagement. It will continue to be reviewed as partnership working arrangements develop and evolve.	Director of Corporate Services / Director of Environment and Economy	May 2012
2.	A biennial review of the Review of the Council's Code of Corporate Governance ("CCG") was due in April 2012.	A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legalisation that potentially impact on the CCG. The CCG will therefore to be subject to an annual 'light touch' review as part of the review of the constitution.	Director of Corporate Services	May 2013 and annually thereafter

ANNUAL GOVERNANCE STATEMENT

3.	The reduction in the number of Directorates and Director roles together with the rationalisation of management posts has reduced overall capacity and resilience.	A new Workforce Strategy (People Plan) has been drafted and it is intended to formally adopt this and start to implement its first "Foundation Year" in the Autumn.	Director of Corporate Services	Autumn 2012
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I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

Signed

.....
Alistair Neill
(Chief Executive)

.....
Councillor Richard Williams
(Leader of the Council)

on behalf of Southampton City Council

AUDITOR'S REPORT AND CERTIFICATE

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

Opinion on the Authority financial statements

I have audited the financial statements of Southampton City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Southampton City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

AUDITOR'S REPORT AND CERTIFICATE

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

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

AUDITOR'S REPORT AND CERTIFICATE

Certificate

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

K.L.Handy

Officer of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire SO50 6AD

September 2012

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes			
Point	Details	Page	Notes
	Grants and Conis	85	42
			Amendment to Disclosure - Deleted Transfers from Capital Receipts by £209k and added to Amounts Received in Year £36,218 (from £36,009) - No impact on the Balance c/f of £26,165K
			Adjustment to surplus deficit on the provision of services for non cash movements now £107,916k (from £108,125 minus £209k adjustment)
	Cash Flow Statement (impact of Grants and Conis above)	14	
			Net Cash flows from operating activities (£49,796k) from (£49,587k) - Subtotal
1			Net Cash flows from Investing Activities (£20,194k) (from £20,403k plus £209k)
		66	25 (a)
			Other Items (£18k) - was £190k (adjustment minus £209k) Subtotal now £107,916k was £108,125k
	Cash Flow Statement Notes		
		67	25 (c)
			Net Cash Flows from Operating Activities (£49,796k) was (£49,587k) (adjustment minus £209k)
			Other Receipts from Investing Activities - Capital Grants and Contributions Received £48,650k (was £48,441k - adjustment plus £209k)
			Total Cash Flow from Investing Activities (£20,194k) was (£20,403k)
2	Collection Fund	94	
			Income Collectable from Business Ratepayers reduce to (£97,244k) (from (£97,311k) - late adjustment to the NNDR3 Return - 09/10 Deferred Payments reduced by £67k from £234k to £167k - Accounted for on a Cash Collected basis)
			Payment to National Pool reduced to £95,513k from £95,580k due to above

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes		Page	Notes
Point	Details	Page	Notes
		14	Adjustment to surplus deficit on the provision of services for non cash movements now £107,925k (from £107,916k (See 1 above) plus £9k adjustment - Council Tax balance per Cash Flow Statement - hyperlink had not updated balance)
			Net Cash Flows from operating activities (£49,787k) from (£49,796) (adjustment plus £9k)
			Net Cash flows from Financing Activities £87,317k from £87,326k (adjustment - £9k)
3	Cash Flow Statement Notes (See also adjustment 1 above)	66	Depreciation £37,901k from £38,531k - minus £630k Impairment and downward revaluations £30,822k from £30,192k - plus £630k (Adjust to PP&E disclosure not updated in Cash flow toolkit - even though hyperlinked)
			Increase/(Decrease) in Creditors (£20,257k) from (£20,266k) plus £9k - Council Tax Creditor (Agency)
			Total £107,925k from £107,916k plus £9k
		67	Billing Authorities - Council Tax and NINDR adjustments £14,645k - minus £9k
			Total Cash Flow from Financing Activities £87,317k from £87,326k minus £9k

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes		Page	Notes	Notes
Point	Details			
		13	Property Plant & Equipment £1,287,052k from £1,287,440k Capital Adjustment Account £863,803k from £864,191k	
		46	PP&E Disclosure Note Council Dwellings (£24,100k) from (£23,712k) At 31 March 2012 £491,666k from £492,054 (NBV Totals per Balance Sheet as above)	
4	Housing Revenue Account - PP&E overstated by £388k	11	Adjustment also required to Revaluation Table Local Authority Housing Impairment loss on dwellings £24,508k from ££24,120k Cost of Services £735,221 from £734,833k Deficit/(Surplus) on provision of Services £96,901k from £96,513k Total Cl&E £175,656k from £175,268k	Net Expenditure £24,508k
		12	Impact on the MIRS with respect to the HRA adjustment Surplus on provision of Services £90,174k from £89,786k Adjustments between accounting and funding basis (£89,959k) from £89,571k Net losses before transfers to Earmarked Reserves £215k (£215k (i.e. no impact on HRA Balance) (Adjustment required to detailed MIRS Note 7 as above)	

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes		Page	Notes	Notes
Point	Details			
		14	Cash Flow	Cash Flow Statement Net surplus or deficit on the provision of services (£96,901k) from (£96,513k) Adjustment to surplus or Deficit for non cash movements £108,313k from £107,925k revised (see above CF adjs) (Adjs to Cash Flow disclosure Note 25 (a))
		86	HRA CI&E	Depreciation, Revaluation and Impairment £37,672k from £37,284k Total Expenditure £153,881k from £153,493k Net Cost (Income) for HRA Services £87,329k from 86,941k (Surplus) deficit for the year £90,174 from £89,786k (Statement of Movement on the HRA Balance as per MIRS adjustment above)
4	Housing Revenue Account - PP&E overstated by £388k	91	HRA Note 8	Council Dwellings (£20,655k) - Amended from (£20,267k) At 31 March 2012 £491,666k - Amended from £492,054k Amounts Reported For Resource Allocation Decisions Reconciliation to Subjective Analysis
		40	8	Amounts not Reported to Man NCOS Total Depreciation, Amortisation and Impairment £56,268k (from £55,880k) £56,268k Total Operating Expensed £104,142 (from £103,754k) £735,221k (£734,833k) £800,831 (£800,433k) Surplus / Deficit on the Provision of Services £73,821k (from £73,433k) £292,922k (£292,534k) £96,901k (£96,513k)

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes		Page	Notes
Point	Details	Page	Notes
5	Contributions received in year and Debtors overstated by £4.4m	13	<p>Short Term Debtors £54,089k (from £58,491k)</p> <p>Capital Adjustment Account £859,401k (from £863,803k See 4 above originally £864,191k)</p> <p>Contributions Debtor of £4.4m incorrectly raised and used in Financing of Capital</p>
		11	<p>Capital Grants and Contributions £43,670k (from £43,670k)</p> <p>Taxation and Non Specific Grant Income £254,407k (from £258,809k)</p> <p>Deficit / (Surplus) on the Provision Services £101,303k (from £96,901k See 4 above was originally £96,513k)</p>
			Cash Flow Statement
			<p>Net surplus or deficit on the provision of services £101,303k (from £96,901k See 4 above originally £96,513k)</p> <p>Adjustment to surplus or Deficit for non cash movements £112,715 (from £108,313k from originally £108,125k see above CF adjs)</p> <p>Adjust for items included.. (£56,797k) (from £61,199k)</p> <p>etc.....</p> <p>Net Cash Flows from operating activities (£45,385k) (from (£49,787k) originally (£49,587k) see above CF adjs)</p> <p>Net Cash Flows from investing activities (£24,596k) from (£20,194k) originally (£20,403k) see above CF adjs)</p> <p>Adjs to Cash Flow disclosure Note 25 (a) and 25 (c)</p>
		14	Cash Flow
		12	<p>Totals</p> <p>Surplus on provision of Services £11,129k (from £6,727k) £101,303k (from £96,901k revised from £96,513k)</p> <p>Adjustments between accounting basis and funding basis under regulations (note 11) (£21,237k) (from (£16,835k) (£114,770k (from £110,368k revised from (£109,980k)</p> <p>(Adjustments also required to Disclosure Note 11 and Note 8 to reflect above changes)</p>

Governance Committee 25 September 2012

Revisions made to Draft Statement of Accounts

None of the changes below affect the overall funds available to the Council

Key Changes			
Point	Details	Page	Notes
6	Assets held for Sale/ Surplus Investment Properties	46	13
			Property Plant and Equipment Recategorised £4.9m of Surplus Assets as Assets Held for Sale (Additional disclosure Note 43) Recategorised £8.5m of Surplus Assets back to Investment Assets

Governance Committee 25 September 2012

Minor Revisions made to Statement of Accounts

Minor Changes			Detail
	Page	Note /Paragraph	
1	53	17	<p>Financial Instruments - Gains and Losses (Table) Interest Expense minus £60k to £14,285k - Total £14,345k (Essentially included the losses twice) Interest Income minus £89k to £2,733k - Total £2,822k (Essentially included the gain twice)</p> <p>(No impact on the CIES)</p>
2	9	Explanatory Forward	<p>Housing Revenue Account (HRA) – Self Financing Settlement From 01 April 2012 the current HRA subsidy system is being replaced with a devolved system of funding and responsibility, which also includes reforms to the financial, accounting and the regulatory framework. On 26 March 2012, in preparation for the commencement of the Housing Revenue Account (HRA), the Council applied to the PWLB (Public Works Loans Board) for loans totalling £73.8M.</p> <p>On 28 March 2012 the Council paid £73.8M to the DCLG (Department for Communities and Local Government) in full and final settlement for the HRA Self Financing buy-out. As required by LAAP (The Local Authority Accounting Panel) Bulletin 92 this payment has been included within the HRA Income and Expenditure Statement and the Comprehensive Income and Expenditure Statement. Section 170(6) of the Localism Act 2011 sets out that the settlement payment transactions are deemed to be capital expenditure, therefore this expenditure has been reversed in the Movement in Reserves Statement (MIRS) to the Capital Adjustment Account.</p>
	40	6	<p>Exceptional Items Housing Revenue Account (HRA) Self Financing buy-out</p> <p>The Council paid £73.8M to the DCLG (Department for Communities and Local Government) in full and final settlement for the HRA Self Financing buy-out.</p> <p>Section 170(6) of the Localism Act 2011 sets out that the settlement payment transactions are deemed to be capital expenditure, therefore this expenditure has been reversed in the Movement in Reserves Statement (MIRS) to the Capital Adjustment Account.</p>

Minor Changes		
Page	Note /Paragraph	Detail
3	43 11	Non-Current Asset Disposals line £48,771k inadvertently hidden therefore Unuseable & Total Reserves columns appearing not to cast. Moved following rows: Net/(loss) gain on sale of Fixed Assets (£39,557k); and Capital Receipts not matched by disposals (£67k) So as Capital Receipts, disposals, and (losses)/gains rows all together
4	12 MIRS	Other Comprehensive Income and Expenditure - Amended from Other Comprehensive Expenditure and Income Balance at 31 March 2011 - Amended from Transfers to/(from) Earmarked Reserves (Note 11) Cross References amended: (note 11) from (note 10); (note 9) from (note 11)
5	19 20	Financial Assets Loans and receivables (including soft loans) - amended from Loans and receivables Loans and Receivables Para 2 - Added "down" (after written)
6	18 AP h)	The Local Government Pension Scheme see Note 39 - Amended from see Note 38
7	29 AP w)	Provision for Back Pay Arising from Unequal Pay Claims First para penultimate line added "no" between "was impact"
8	90 HRA Note 8	Fixed Assets Second para amended to £1,260M from £1.3M

Minor Changes

	Page	Note /Paragraph	Detail
9	48	Note 14	<p>Heritage Assets</p> <p>In addition to Historic Buildings and Ancient Monuments (including the City Walls), the Council have four main collections: - Amended from "The four collections are:."; and</p> <p>"Historic Buildings and Ancient Monuments" removed from the list</p>
10	103 - 107	Glossary	<p>Reordered so that now alphabetical (last four were not alphabetical)</p> <p>Added definitions:</p> <p>International Financial Reporting Standards (IFRS)</p> <p>Supported Borrowing</p> <p>Unsupported Borrowing</p> <p>Slightly amended Standard Statements of Accounting Practice - Changed reference to SORP to CIPFA's Accounting Code of Practice</p> <p>Changed Fixed Assets heading to Property, Plant and Equipment</p>
11	83	Mortality assumptions Table	<p>Commutation: pre 1 April 2010 (changed from pre 1 April 2008) post 31 March 2010 (changed from post 31 March 2008)</p>
12	83	Expected Return on Assets Table	<p>Asset Split at 31 March 2012</p> <p>Government Bonds 27.0 (from 27)</p>
13	82	39 c	<p>Removed curtailments and Settlements Flows from both tables as zero</p>

Minor Changes

	Page	Note /Paragraph	Detail
14	39	7	<p>Additional disclosure Events after the Reporting Period</p> <p>ROMANSE-CCTV Partnership On 9 May 2012 Southampton City Council entered into an £800,000 annual contract with Balfour Beatty Living Places Limited to provide the City's Intelligent Transport System (ROMANSE) and Public Safety CCTV services for 10 years with effect from 1 October 2012.</p>
15	84	40	<p>Contingent Liabilities/ Asset Amended the disclosure of the following to Thornhill Plus You The Thornhill Plus You (New Deal for Communities - NDC) succession plan for the successor body PYL (Plus You Limited) no longer requires to be signed off by the Department for Communities and Local Government (DCLG). However, DCLG officials are currently looking back at spend in all NDC areas to provide assurance that taxpayers' funds have been properly used. This may mean recovery of some grant from Southampton City Council. This assessment has not yet been completed therefore it is not possible to quantify the extent of any potential contingent liability.</p>
16	7	Explanatory Foreword	<p>Where the money came from Unsupported borrowing increased and Contributions decreased by £4,402k - See Revisions 5</p>
17	85	42	<p>Additional Disclosure within note 42 of both Capital Grants and Contributions and General Government Grants (Revenue) included in the CIES</p>

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 3

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2012/13 are:

- To make use of short term variable rate debt to take advantage of the continuing current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
 - Security of invested capital
 - Liquidity of invested capital
 - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.

In essence TM can always be seen in the context of the classic 'risk and reward' scenario and following this strategy will contribute to the Council's wider TM objective which is to minimise net borrowing cost short term without exposing the Council to undue risk either now or in the longer in the term.

The main activities undertaken during 2012/13 to date are summarised below:

- Investment returns during 2012/13 will continue to remain low as a result of low interest rates, with interest received estimated to be £0.7M. However, the average rate achieved to date for fixed term deals (1.39%) exceeds the performance indicator of the average 7 day LIBID rate (0.76%) mainly due to residual deals from the rolling programme of yearly deposits placed last year which is currently suspended due to uncertainty in the market place. New investments are placed in instant access accounts or term deposits up to 100 days depending on advice of our Treasury advisors.
- In order to continue to balance the impact of ongoing lower interest rates on investment income we have continued to use short term debt which is currently available at lower rates than long term debt due to the depressed market. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.26% is lower than that budgeted for but slightly higher than last year which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for an extended period. However, it should be noted that the forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA (reaching 3.52% by 2013/14).

2. Economic Background

The UK economy contracted by 0.3% in the first calendar quarter of 2012 and by 0.2% in the twelve months to March 2012. Surveys and employment data had, however, shown a stronger tone than official figures (CIPS surveys were more consistent with positive quarterly GDP growth of around 0.2%), prompting questions about data accuracy. There was an expectation that growth would once again register a fall in the second quarter. Looking forward into the rest of the year, it is difficult to forecast GDP gaining any significant positive traction whilst uncertainty over Europe persists.

Inflation which had remained stubbornly sticky throughout 2011 slowly began to fall. CPI for May fell to 2.8%, the lowest level since November 2009, the first time it had dipped below 3% in two and a half years. The fall added strength to the argument for further Quantitative Easing (QE), particularly as the minutes of the Bank of England's June meeting revealed that additional QE was only narrowly outvoted by five to four; the four dissenting Committee members had voted for an increase in QE of between £25 billion and £50 billion. The close vote indicated that further monetary policy loosening would not be far away.

Banks' funding costs remained high, not least due to the capital requirements imposed by regulators. Tight credit conditions were one of the factors constraining growth. A new "funding for lending" scheme, announced by HM Treasury and the Bank of England, is intended to lower banks' funding costs, but with the economic outlook still so uncertain, its impact is likely to be muted if banks remained reluctant to lend and corporates and households refrained from taking on additional debt. Banks were embroiled in the scandal to manipulate LIBOR rates during the abnormal market conditions at the height of the 2007/08 financial crisis. Barclays was fined a record £290 million, the FSA was also investigating HSBC, RBS, Citicorp and UBS; Lloyds was named in a lawsuit in the US. The big-four UK banks were also being investigated for mis-selling interest rate swaps to small businesses.

The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. In Europe, the formation in Greece, after a second round of parliamentary elections, of an alliance of pro-euro parties prevented an immediate and disorderly exit from the Euro. The region suffered a renewed bout of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. At the European summit in June, some progress was made after it was agreed to create a Europe-wide banking regulator, and change the rules to allow the ESM (the future permanent bailout fund) to inject capital directly into banks. The latter would be effected after a single supervisory mechanism for Eurozone banks had been established, implying it was not a near-term prospect.

3. Outlook for Quarter 2

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at June 2012 is detailed below. Economic growth remains elusive; the economy contracted by 0.3% in the first quarter of 2012, and further downward revisions were made to Quarter 4 2011 GDP. Tight credit conditions, weak earnings growth and an uncertain employment outlook are constraining consumer and corporate spending. Therefore, the outlook is for official interest rates to remain low for an extended period. As a result of this revised forecast the Council will reappraise its strategy and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Official Bank Rate													
Upside risk				0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

4. Debt Management

Activity within the debt portfolio up to Quarter 1 is summarised below:

	Balance on 01/04/2012	Debt Maturing or Repaid	New Borrowing	Balance as at 30/6/2012	Increase/ (Decrease) in Borrowing for Year
	£M	£M	£M	£M	£M
Short Term Borrowing	0	0	0	0	0
Long Term Borrowing	300	(3)	0	297	(3)
Total Borrowing	300	(3)	0	297	(3)

Public Works Loan Board (PWLB) Borrowing: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. The continued low gilt yields during the quarter have resulted in PWLB rates remaining at close to historically low rates. The 5, 20 and 50 year PWLB rates fell by 23 basis points (bp), 43bp and 25bp respectively. However affordability and the “cost of carry” remained an important influence on the Council’s borrowing strategy alongside the consideration that for any borrowing undertaken ahead of need, the proceeds would have to be invested into a distressed financial market (credit risk) at rates of interest significantly lower than the cost of borrowing.

Alternative Sources: Whilst there are several claims that a competitive, comparable equivalent to PWLB is readily available, the Council will continue to adopt a cautious and considered approach to funding from the capital markets. The Council’s treasury advisor, Arlingclose, is actively consulting with investors, investment banks, lawyers and credit rating agencies to establish the attraction of different sources of borrowing, including bond schemes, loan products and their related risk/reward trade off.

As at the 31 March 2012 the Council used £66.5M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. The strategy set for 2012/13 expected to borrow £62 M for capital purposes by 2014/15 of which £29M related to externalising internal debt to cover the expected fall in balances and also to lock back into longer term debt prior to interest rises. However due to the continued and increased uncertainty in the markets and the expectations of interest rates staying lower for longer it may be appropriate to maintain the council use of internal resources for part or all of this amount; providing that balances can support it.

No borrowing is expected to be taken until the second half of the year when the 20 basis points discount on loans from the PWLB (announced in 2012 Budget Report) is expected to be implemented.

The Council has £35M variable rate loans which were borrowed prior to 20 October 2010 (the date of change to the lending arrangements of the PWLB post CSR) and are maintained on their initial terms and are not subject to the additional increased margin, they are currently averaging 0.70% and are helping to keep overall borrowing costs down.

Variable rate borrowing (currently between 1.46% and 1.48% for new borrowing) is expected to remain attractive for some time as the Bank of England maintains the base rate at historically low levels and the Council is currently expected to borrow an addition £25M at variable rates at an estimated 1.9% during 2012. Whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time.

In order to mitigate these risks the Council approved the creation of an Interest Equalisation Reserve in 2009. At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. The Interest Equalisation Reserve was created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period during which the council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon.

Debt rescheduling: The fall in PWLB repayment rates enlarged the premium / diminished the residual discounts on the premature repayment of debt, reducing the attractiveness of debt rescheduling during the quarter. No rescheduling activity was undertaken.

5. Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The table below summarises activity during the year to date:

	Balance on 01/04/2012	Investments Repaid	New Investments	Balance as at 30/6/2012	Increase/ (Decrease) in Investment for Year
	£M	£M	£M	£M	£M
Short Term Investments	10	(11)	11	10	0
Money Market Funds	52	(94)	116	74	22
EIB Bonds	6	0	0	6	0
Long Term Investments	0	0	0	0	0
Total Investments	68	(105)	127	90	22

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its TM

Strategy Statement for 2012/13. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Deposits with UK Banks and Building Societies
- Debt Management Office.

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings. The Council's minimum long-term counterparty rating is A+ (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

A break down of investments as at 30 June 2012 by credit rating at the end of the quarter and maturity profile can be seen in following table.

Current Rating	Initial Rating	Less than 1 Month £000's	1 - 3 Months £000's	3 - 6 Months £000's	6 - 9 Months £000's	9 - 12 Months £000's	Over 12 Months £000's	Total £000's
BBB	A+	0	0					0
A-	A-							0
A	A+	9,000	0					9,000
A	AA-		1,000					1,000
A+	A+	8,000						8,000
AA-	AA-							0
AA+	AA+							0
AAA	AAA	65,926	0			3,000	3,036	71,962
		82,926	1,000	0	0	3,000	3,036	89,962

Counterparty Update

Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland, as well as Royal Bank of Canada, JP Morgan Chase, BNP Paribas, Societe Générale, Credit Agricole/Credit Agricole CIB, Credit Suisse and Deutsche Bank. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A-/A3 credit rating threshold.

Maturities for new investments with the residual banks on the Council's list were restricted as follows:

- Santander UK, Bank of Scotland, Lloyds TSB, NatWest and Royal Bank of Scotland for overnight deposits;
- Barclays Bank and Nationwide Building Society for a maximum period of 100 days;
- HSBC Bank and Standard Chartered for a maximum period of 6 months;

Please note that as a result of the down rating of Lloyds Bank to overnight, we currently have £9M of fixed term deposits which are outside these recommended limits. All of

these deposits mature in July and our Advisors do not have any current concerns regarding these investments and do not advise clients to break existing term.

Authority Banking Arrangements: Along with many other authorities the Council uses the Co-op as its banker, which at the current time does not meet the minimum credit criteria of A+ (or equivalent) long term. However, there are not many banks actively in the tendering process for local authority banking, which would meet our criteria and it is a costly and complicated process. With this in mind, despite the credit rating being below the Authority's minimum criteria, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Budgeted Income and Outturn: The authority does not expect any losses from non-performance by any of its counterparties in relation to its investments. The Council's investment income for the year is currently estimated to be £0.7M. The UK Bank Rate has been maintained at 0.5% since March 2009 and short-term money market rates have remained at very low levels.

6. Compliance with Prudential Indicators

All indicators in Quarter 1 complied with the Prudential Indicators approved. Details of the performance against key indicators are shown below:

6.1. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow. The following table shows the actual position as at 31 March 2012 and the estimated position for the current and next two years based on the capital programme submitted to council:

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Balance B/F	360	444	441	444	443
Capital expenditure financed from borrowing	17	15	13	8	8
HRA Debt buyout	74	(8)	0	0	0
Revenue provision for debt Redemption.	(7)	(8)	(7)	(8)	(7)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(1)	(3)
Cumulative Maximum External Borrowing	441	441	444	443	441

6.2. Balances and Reserves

Estimates of the Council's level of overall Balances and Reserves for 2012/13 to 2014/15 are as follows:

	2010/11 Actual	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£M	£M	£M	£M	£M
Balances and Reserves	56	70	33	33	33

6.3. Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Authorised limit for borrowing was set at £832M for 2012/13.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for borrowing 2012/13 was set at £794M.
- The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of June 2012 borrowing at its peak was £300M.

The above limits are set to allow maximum flexibility within TM, for example, a full debt restructure, actual borrowing is significantly below this as detailed below:

	Balance on 01/04/2012 £M	Balance as at 30/6/2012 £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Borrowing	300	297	351	348	342
Other Long Term Liabilities	72	72	74	78	83
Total Borrowing	372	369	425	426	425

6.4. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2012/13
Upper Limit for Fixed Rate Exposure	100%
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50%

Compliance with Limits:	Yes
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6.5. Total principal sums invested for periods longer than 364 days

- This indicator allows the Council to manage the risk inherent in longer term investments.
- The limit for 2012/13 was set at £50M
- Due to the current uncertainty in the market no more investments will be made unless the markets settle down and our advisors recommend it.

6.6. Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 30/6/2012	Average Fixed Rate as at 30/6/2012	% of Fixed Rate as at 30/6/2012	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	10	2.67	4.10	Yes
12 months and within 24 months	0	45	3	1.97	1.18	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	101	3.23	39.94	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	10	4.68	3.95	Yes
30 years and within 35 years	0	75	5	4.60	1.97	Yes
35 years and within 40 years	0	75	25	4.62	9.86	Yes
40 years and within 45 years	0	75	53	3.61	20.87	Yes
45 years and within 50 years	0	75	46	0.35	18.13	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			253	3.47	100.00	

Please note: the TM Code Guidance Notes (page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

6.7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the capital programme approved in February 2012 adjusted for actual borrowing made to 30 June 2012.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Actual	2012/13 Approved	2012/13 Estimate	2013/14 Approved	2014/15 Approved
	%	%	%	%	%
General Fund	6.30	6.84	6.62	7.42	7.17
HRA	4.65	10.92	9.08	11.05	10.84
Total	7.12	8.84	8.27	9.36	8.93

7. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the TM activity up to the 30 June 2012. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

