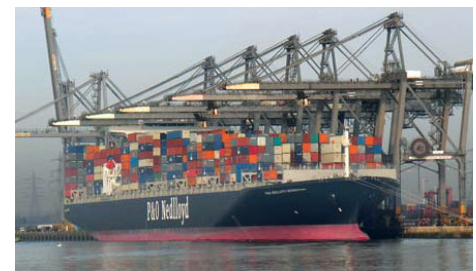


STATEMENT OF ACCOUNTS 2008/09

<u>Contents</u>	<u>Page</u>
1 Explanatory Foreword	1
2 Introductory Statements	
Accounting Policies	8
Responsibilities for the Statement of Accounts	21
3 Accounting Statements and Notes	
Income and Expenditure Account	22
Statement of the Movement on the General Fund Balance	23
Statement of Total Recognised Gains and Losses	25
Balance Sheet	26
Cash Flow Statement	27
Notes to the Core Financial Statements	28
4 Other Accounting Statements and Associated Notes	
Housing Revenue Account	66
Collection Fund and Notes	73
Trust and Other Funds	76
5 Glossary	81
6 Annual Governance Statement	86
7 Auditor's Report and Certificate	



EXPLANATORY FOREWORD

FINANCIAL STATEMENTS

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently this foreword explains some of the statements and sections included within this document and provides a summary of the authority's financial performance for 2008/09.

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

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

The statements are:

Accounting Policies	p8-20
This statement details the Accounting policies followed by the Authority during 2008/09.	
Responsibilities for the Statement of Accounts	p21
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Income and Expenditure Account	p22
This statement reports the net cost for the year of all the services provided by the Council, including the HRA but excluding the Collection Fund. It demonstrates how the costs have been financed from general government grants and income from local taxpayers.	
Statement of the Movement on the General Fund Balance	p23-24
The statement brings together the surplus or deficit for the year from the Income and Expenditure Account, plus the net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year. It also shows the balances brought and carried forward.	
Statement of Total Recognised Gains and Losses	p25
The statement brings together all the gains and losses for the year. It includes the surplus or deficit on the Income and Expenditure Account for the year, the surplus or deficit arising on revaluation of fixed assets, any actuarial gains and losses on pension fund assets and liabilities plus any other gains and losses.	
Balance Sheet	p26
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2009.	
Cash Flow Statement	p27
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.	

EXPLANATORY FOREWORD

Housing Revenue Account (HRA)	p66-72
This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats.	
Collection Fund	p73-75
The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
Trust and Other Funds	p76-80
This statement shows receipts and payments of funds for which the Council acts as trustee.	

FINANCIAL SUMMARY

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

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 £173.2M and was supported by a council tax increase of 3.49% (which gave a Band D council tax of £1,174.47).

Our net expenditure budget for the year represents the net cost of services, taking into account:

- £2.6M of income from our investments
- £53.7M of income from fees and charges for services provided and
- £322.0M of specific government grants and other internal income, of which £115.5M related to the Dedicated Schools Grant.

It also assumed a contribution from general reserves and working balances of £2.6M.

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

- £84.6M of business rates (National Non-Domestic Rates from the Pool)
- £11.8M of general government grant (Formula Grant) and
- £76.8M of council tax income

The original budget plans were updated during the course of the year and the contribution from working balances was revised to £4.2M compared to the originally planned £2.6M, an increase of £1.6M.

The final outturn for the year was £170.24M and we were able to contribute £2.9M to working balances instead of taking £4.2M from them.

Overall, there was a net reduction in the use of the Authority's reserves and general balances in the year of some £7.1M compared with the working budget.

EXPLANATORY FOREWORD

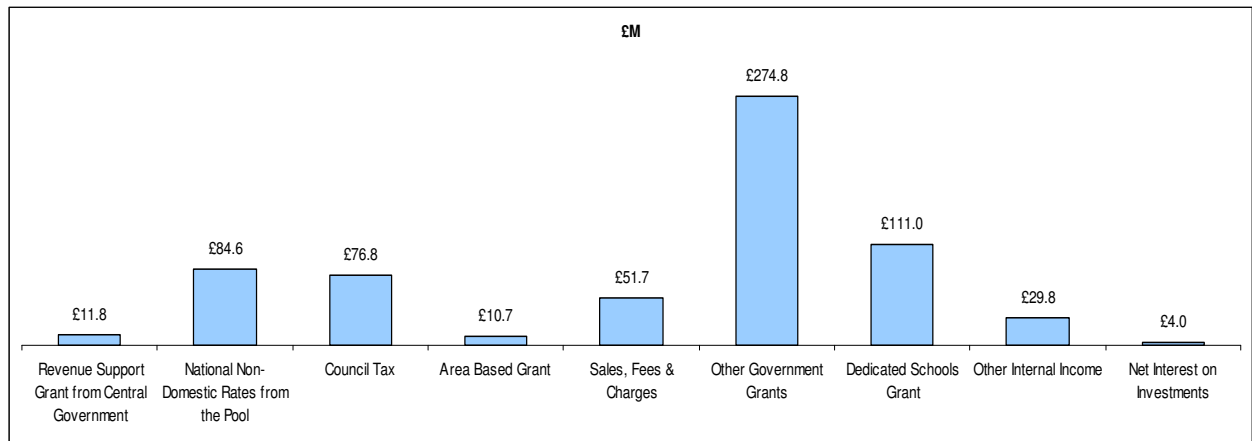
Explaining the big differences

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

	£000
Savings in Portfolio budgets	3,701
Net additional income on investments	881
One-off Commutation Adjustment (the release of a provision no longer required due to legislative changes)	987
Reduced revenue contribution to capital spending	719
Additional recovery of Housing Benefits overpayments	800
Increased bad debt provision	(484)
Reduced Building Schools for the Future procurement & project costs	391
Other variations	153
REDUCTION IN USE OF RESERVES & BALANCES	<u>7,148</u>

Where the Money Came From

The following chart provides an analysis of our main sources of income for the year.



Where the Money Went

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

EXPLANATORY FOREWORD

GENERAL FUND REVENUE EXPENDITURE 2008/09

Revised Budget £000's	Working Budget £000's	Actual Expenditure £000's	Variance £000's
49,624.5 Adult Social Care & Health	49,620.6	49,384.2	236.4
26,382.9 Childrens Services	25,840.1	25,798.1	42.0
5,850.1 Economic Development	5,850.1	5,513.4	336.7
23,624.7 Environment & Transport	24,246.6	23,779.9	466.7
10,617.6 Housing & Local Services	10,617.6	10,423.3	194.3
4,363.5 Leader's Portfolio	5,060.4	4,623.5	436.9
7,989.3 Leisure Culture & Heritage	7,947.3	7,897.6	49.7
36,526.7 Resources & Workforce Planning	36,740.8	35,326.7	1,414.1
3,701.1 Young People & Skills	4,577.8	4,203.8	374.0
168,680.4 Sub-total for Portfolios	170,501.3	166,950.4	3,550.9
18,231.6 Other items	16,312.8	16,162.7	150.1
186,912.0 Portfolio Total	186,814.1	183,113.1	3,701.0
512.9 Levies & Contributions	512.9	516.2	(3.3)
(13,310.7) Capital Asset Management	(13,310.7)	(15,064.4)	1,753.7
4,808.2 Other Expenditure & Income	3,373.6	1,676.5	1,697.1
178,922.4 NET GF SPENDING	177,389.9	170,241.4	7,148.5
(5,753.9) Draw from Balances:	(4,221.4)	2,927.1	(7,148.5)
173,168.5 Budget requirement	173,168.5	173,168.5	0.0

The above summary of General Fund Revenue expenditure can no longer be directly reconciled to the 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. The above summary excludes items in the Income and Expenditure Account such as the Housing Revenue Account, pension costs due to FRS17 requirements and some capital charges.

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

	£000's
Salaries & Wages	108,571.5
Other Employee Costs	6,785.4
Premises Costs	15,791.2
Transportation Costs	7,998.5
Supplies & Services	95,829.0
Internal Charges	7,844.7
Other Direct Costs (Includes School Allocations)	202,899.6
Total Expenditure	445,719.8
Internal Income	(29,780.0)
Fees, Charges & Rents	(49,115.7)
Grants / Contributions	(199,873.7)
Total Net Expenditure	166,950.4

EXPLANATORY FOREWORD

Capital Summary

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

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

Comparing actual spending to budget

The budget for the year was to spend £96.8M on capital projects. Our final capital spend for the year was £21.3M less than the budget at £75.5M.

The table below summarises the capital expenditure for the year.

	Budget £000	Actual £000	Variance £000
Children's Services & Learning	25,204	15,015	10,189
Environment & Transportation	18,361	16,459	1,902
Economic Development	9,718	7,825	1,893
Adult Social Care & Health	1,210	890	320
Housing & Local Services	7,293	7,190	103
Leisure, Culture & Heritage	1,244	1,048	196
Finance & Resources & Workforce Planning	5,466	1,619	3,847
Total General Fund	68,496	50,046	18,450
HRA	28,268	25,451	2,817
Total	96,764	75,497	21,267

Explaining the big differences

The final spend for the year was £21.3M lower than the budget mainly due to slippage on schemes which will now be spent in 2009/10. Some of the major slippage was on the following schemes:

- Play Areas £2,155K
- Children's Centres £1,150k
- Learning Futures £1,147k
- Schools Improvements and Modernisation £1,157k
- Special Educational Needs Review £1,545k
- Strategic Purchases £798k
- North/South Spine £711k
- Principal Roads £552k
- Repair & Maintenance Backlog £1,404k
- 183 High Street £1,768k

Where the money came from

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

EXPLANATORY FOREWORD

	£000
Supported Borrowing	8,782
Unsupported Borrowing	12,709
Capital Receipts	8,762
Capital Grants	18,207
Contributions	2,053
Direct Revenue Financing	12,778
Major Repairs Allowance	12,206
Total	75,497

Reserves and Balances Summary

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

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

We also maintain a general reserve to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure. The final balance at 31 March 2009 was £15.2M.

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

ACCOUNTING ISSUES AND DEVELOPMENTS

The 2008 SORP has introduced a number of changes to local authorities' financial statements. The key changes include:

- Revenue Expenditure Funded from Capital under Statute
Previously Deferred Charges was used to recognise expenditure that regulations permitted to be funded from capital resources, but which did not satisfy the SORP's criteria to be classified as capital expenditure. The 2008 SORP has effectively replaced deferred charges with Revenue Expenditure Funded from Capital under Statute (Change in Accounting Policy) which has no impact on Council Tax;
- Retirement Benefits – FRS17 Disclosures
The 2008 SORP incorporates the requirements of a revised Pensions SORP published in July 2007. The Pensions SORP was revised to take account of the requirements of the financial instruments reporting standards FRS25 and FRS26.
The main change, effecting the Council, is that Pension Fund Assets (Investments) are now required to be shown on a fair value basis and where there is an active market the bid price is usually the appropriate quoted market price (previously the mid-market price). The effect of this Change in Accounting Policy is set out in Note 2 to the Core Financial Statements;
- Area Based Grant (ABG)
ABG replaces Local Area Agreement Grant (LAA) from 2008/09. Unlike LAA Grant, ABG is non-ringfenced general grant. The SORP requires ABG to be accounted for as general grant within the Income and Expenditure Account with other general income sources, whereas LAA Grant was included within Net Cost of Services. Comparative figures have not been restated as this does not amount to a Change in Accounting Policy (see Note 59 to the Core Financial Statements).

EXPLANATORY FOREWORD

IMPACT OF THE RECESSION

The current economic climate has had three major impacts on the Council's financial position during 2008/09:-

- A loss of income from fees and charges which is expected to continue into 2009/10.
- A drop in income from investments.
- Capital receipts from the sales of land and property have been far less than forecast and many key schemes in the City have either been put on hold or abandoned.

In addition, to these impacts, there has been a notional impact of approximately £180m through the Income and Expenditure Account due to reductions in the values of Fixed Assets (impairments) which are required to be reflected in the Financial Statements.

Despite these issues, the Council was still able to approve a balanced budget that took these losses into account. The Council also took the decision to suspend the sale of any major assets until such time as the market picks up.

The recession and the turmoil in the banking sector have also made the management of the Council's cash flow problematic. In response to the events of last year the Council took several decisions to reduce the risks within its investment portfolio and restructured its loan portfolio to take account both of low short term interest rates and to lessen its overall exposure in the investment market.

The recession has also seen an increased demand for Council services and an increased number of customers who are having difficulties in paying debt owed to the Council.

In response to this, the Council has been proactive in ensuring that as much information has been made available to customers about what the Council and other agencies can do to assist.

ACCOUNTING POLICIES

1. General

The Statement of Accounts summarises the council's transactions for the 2008/09 financial year and its position at the year-end of 31st March 2009. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A statement of Recommended Practice 2008, Best Value Accounting Code of Practice* and FRS18 Accounting Policies. The accounts have been compiled by applying the most appropriate policies and estimation techniques, taking into account the accounting concepts of qualitative characteristics of financial information (i.e. relevance, reliability, comparability and understandability), materiality and the pervasive accounting concepts (i.e. accruals, going concern and primacy of legislative requirements). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accrual Accounting

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

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

3. Reserves

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council.

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

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

Transactions for 2008/09 can be seen within the Statement of Reserves **on pages 48 to 51**.

ACCOUNTING POLICIES

4. Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. 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 to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

Provisions are explained in more detail on *page 46*.

5. Government Grants and Contributions

Revenue

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

Capital

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

6. Retirement Benefits

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

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

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

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

ACCOUNTING POLICIES

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

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

- Assets and Liabilities of the fund will not be split between SCC and Capita – so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both SCC employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both SCC employees and employees transferred to Capita
- The Pension Interest Costs & Expected Return on Assets in the Income & Expenditure Account will be reflective of SCC's share – including the Capita element
- The contract 'pass through payment' to Capita to fund the Capita employer contributions will be reversed out of SCC's accounts and will then be a reconciling item in the Statement of Movement on the General Fund Balance (in the section Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund for the Year)
- The SCC actual pension fund contributions for 2008/09 will be excluded from SCC's accounts, and will be a reconciling item in the Statement of Movement on the General Fund Balance (in the section Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund for the Year)
- The accounts will therefore reflect the full FRS17 position of the Authority including the Capita element.

The Local Government Pension Scheme

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

- The liabilities of the Hampshire County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the SORP.
- The assets of the Hampshire County Council pension fund attributable to the council are included in the balance sheet at fair value:
 - quoted securities – current bid price (formerly mid-market price – change in accounting policy – see note 2 to the Core Financial Statements)
 - unquoted securities – professional estimate
 - unitised securities – current bid price (formerly average of the bid and offer rates – change in accounting policy – as above)
 - property – market value

ACCOUNTING POLICIES

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

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

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

As a result of this the overall amount to be met from government grants and local taxation has remained unchanged, but the costs for individual services are £6,960k lower (£6,290k higher in 2007/08) after the replacement of employer's contribution by current service costs, and Net Operating Expenditure is £4,910k higher (£12,330k higher in 2007/08) than it would otherwise have been. In addition the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £164,820k (restated) in 2007/08 and by £297,970k in 2008/09.

The total liability of £297,970k has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see *pages 52 to 57*.

Discretionary Benefits

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

7. VAT

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

ACCOUNTING POLICIES

The Council followed the HMRC guidance to manage the change in the standard rate of VAT from 17.5% to 15%, ensuring that VAT continued to be correctly accounted for.

8. Overheads and Support Services

The current accounting policy for overheads is that all services should bear an equitable proportion of the overheads of the Council. Support Service costs are recharged to services on a variety of bases e.g. Agreed Annual Charge, Time Allocation, Unit Rates which reflect the benefit from the supply or service in accordance with the principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The exceptions to this are :

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

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

9. Intangible Assets

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

10. Tangible Fixed Assets

Where the Council benefits from an asset for more than one financial year, all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis and has been recognised in the value of fixed assets in the balance sheet. By definition, this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

Valuation

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

Operational - Land, property and other assets used for service provision are called ‘operational assets’. Land and property are included in the balance sheet at the Open Market Value for their present use when there is sufficient evidence to support the value, or at Depreciated Replacement Cost. The exception to this rule is Council Houses, which are valued on the “Beacon” method. This involves establishing a value over a range of types and ages of property, which is then applied to the housing stock. Stock valuation information is based as at 1 April of each year and as part of resource accounting requirements. This value is then uplifted, via indices to represent the value at the 31 March. Following an internal audit review the Southampton land registry index is now used as opposed to the South East England index which was overstating the uplift. An allowance is made for discount on the sale of stock.

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

Non-Operational - These are assets owned by the Council but not used in the direct delivery of services and are occupied by third parties to provide services on the Council’s behalf. They are valued at Open Market Value. For investment properties the asset value is determined by

ACCOUNTING POLICIES

capitalising the rents passing under existing leases at a market rate of interest which reflects the security of the income flow and the potential for increasing it.

Infrastructure and Community Assets - These are included in the balance sheet at historical cost net of depreciation. As recommended by CIPFA the Council's policy is that assets with a value of less than £10,000 do not attract depreciation charges.

Assets under Construction - Assets are held at the value of capital expenditure to date, until such time as the asset is deemed to require certification by the Valuer.

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

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

Revaluation Reserve

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

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

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

Impairment

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

- Clear consumption of economic benefits – loss is charged to the relevant service revenue account within the Income and Expenditure Account
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account within the Income and Expenditure Account

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

Depreciation

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

Council Dwellings - The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from central government. This

ACCOUNTING POLICIES

amount has been calculated as that required to maintain the housing stock in its current condition and central government allows this to be used as proxy for depreciation.

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

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

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

Community Assets – assets are only depreciated where there is a determinable useful life. They are generally valued at historic cost and the useful life of most of these assets exceeds 50 years and any depreciation charged would be immaterial to the accounts.

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve, and can only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movements on the General Fund Balance.

The summarised movements of capital receipts are on **pages 49-50**.

11. Charges to Revenue for Fixed Assets

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

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

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

ACCOUNTING POLICIES

12. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute (previously referred to as deferred charges) represents capital expenditure that does not result in an asset, such as improvement grants. Expenditure of this nature, where the authority does not gain any economic benefit, is written off to the Revenue Account in the year it occurs, but does not affect the charge to Council Tax as an offsetting appropriation is made through the Statement of Movement on the General Fund Balance and the Capital Adjustment Account.

13. Leases

a) Operating Leases

Leases that do not meet the definition of a finance lease are accounted for as operating leases. Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease. In addition operating lease rentals payable are accounted for net of benefits received or receivable.

b) Finance Leases

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

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

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

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

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio 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 Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

ACCOUNTING POLICIES

Where premiums and discounts have been charged to the Income and Expenditure Account, 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

Redemption of debt

In accordance with the requirements of the Local Government Act 2003, the authority is required to set aside a minimum revenue provision (MRP) for repayment of debt. This is based on the Capital Financing Requirement (as defined by the Act) at the end of the preceding financial year, which replaced the detailed formula for calculating MRP, with a requirement to be prudent. For capital expenditure incurred before 1st April 2008 the Council's policy is to adopt existing practice (4% of capital financing requirement). The exception to this is short life assets (e.g. vehicles) where MRP has been calculated based on asset lives.

Interest Charges

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

15. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council's borrowing is split between Long Term for loans with more than one year to maturity and Short Term for loans with less than one year to maturity. The crucial contrast with a private organisation is that an authority's debt, whether short-term or long-term, is secured, not on its fixed assets, but on its revenues. A lender to a local authority enjoys the security of knowing that in the last resort, the authority would be obliged to raise revenues in order to repay outstanding debts.

Investments arise on a short term basis throughout the year as a result of movements in cash flow. The carrying value of these include accrued interest.

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

ACCOUNTING POLICIES

Council, the difference between the effective rate of interest and the contractual rate of interest is not deemed to be material to the accounts and therefore has not been accounted for in the Income and Expenditure Account. Instead the details of the soft loans granted are contained within this note.

Southampton City Council grants the following types of soft loans:

- Car and Cycle Loans the majority of which are issued at the prevailing base rate, the balance of these loans amounted to £97k at the 31 March 2009 (£87k – 31 March 2008)
- Season Ticket Loans amounting to £ 21k at the 31 March 2009 (£15k – 31 March 2008)
- Welfare Loans amounting to £11k (£4k – 31 March 2008)

The Council also provide 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 (Formerly deferred charges). 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. At 31 March 2009 the value of Private Sector Home Improvement loans outstanding amounted to £1.3M (£1.2M – 31 March 2008).

Available for Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account 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 Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

16. Stocks and Work in Progress

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

ACCOUNTING POLICIES

For 2008/09 the Council's Central Stores stock has been valued on an "Average Cost" basis as recommended in SSAP 9.

Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it has been eliminated when the accounts are consolidated.

17. Interests in Companies and Other Entities

Group Accounts and Financial Relationships with Companies

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

The Council's share of SECL's profit using revised terms in 2008/09 was £755. At 31 March 2009 SECL had net assets of £100. SECL's accounts are subject to audit.

SSEL did not make any profits for the year ending 31 March 2009 and the company is to be wound up.

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

18. Private Finance Initiatives (PFI)

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

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

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

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

Details of undischarged obligations as at 31st March 2009 are detailed on **page 29**.

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 29th October 2001 and will terminate on 31st August 2031. The estimated capital value of these schemes is £37 million.

ACCOUNTING POLICIES

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

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

Northlands Nursing Home

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

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

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

19. Strategic Services Partnership with Capita

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

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

The contract did not state what this reduction in charges was. Neither was it possible to estimate the open market value of the assets. Therefore, as the IT assets held on the Balance Sheet had been originally recognised at cost and were being depreciated over short lives relevant to the nature of the assets, the Net Book Value (NBV) (£3.2M) is 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 Income and Expenditure Account. This is then reversed out through the Statement of Movement on General Fund Balance.

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

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

ACCOUNTING POLICIES

20. Trust Funds

The Council is sole trustee of several trust funds. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of the Trust Funds can be found on *page 76 to 80*.

21. Exceptional Items, Extraordinary Items & Prior Year Adjustments

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

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

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

22. Post Balance Sheet Events

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

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

23. Regeneration Budgets

Southampton City Council is the Accountable body for the regeneration programmes for the Government Office for the South East (GOSE).

The Council is responsible for the successful delivery of New Deal for Communities programme that has been awarded to the City. A Partnership Board of local residents and agencies manages the programme.

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

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

RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. The Council's Responsibilities

The Council is required to:

Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council that Officer is the Executive Director of Resources.

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

Approve Statement of Accounts.

2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Executive Director of Resources. The CFO is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2009.

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

Selecting suitable accounting policies and then applying them consistently.

Making judgements and estimates that are reasonable and prudent.

Complying with the Code of Practice (any significant non-compliance being fully disclosed).

The CFO has also responsibilities for:

Keeping proper accounting records, which are up to date.

Taking reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of Southampton City Council at 31st March 2009 and its income and expenditure for the year ended 31st March 2009.

Signed C Williamson
Executive Director of Resources and
Chief Financial Officer

Date 25th June 2009

4. Approval of the Accounts

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

Signed

Date 25th June 2009

Chair, Standards and Governance Committee.

INCOME AND EXPENDITURE ACCOUNT

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

<u>2007/08</u>			<u>2008/09</u>	
<u>Net</u>		<u>Gross</u>		<u>Net</u>
<u>Expenditure</u>	<u>Notes</u>	<u>Expenditure</u>	<u>Income</u>	<u>Expenditure</u>
£000's		£000's	£000's	£000's
4,850	Central Services to the Public	24,736	(19,547)	5,189
52,948	Cultural, Environmental Regulatory and Planning Services	82,761	(33,449)	49,312
48,708	Children's and Education Services	227,037	(165,523)	61,514
11,088	Highways and Transport Services	30,702	(14,927)	15,775
(14,277)	Local Authority Housing (HRA)	195,492	(61,798)	133,694
3,789	Other Housing Services	98,493	(93,491)	5,002
55,514	Adult Social Care Social Services	85,286	(25,606)	59,680
4,644	Corporate and Democratic Core	5,212	(470)	4,742
3,262	Non Distributable Costs	3,509	(35)	3,474
170,526	Net Cost of Services	753,228	(414,846)	338,382
	Investment Properties			24,849
0	Loss / (Gain) on the disposal of Fixed Assets			(1,373)
483	Contributions to Other Local Authorities	47		516
8,931	Interest payable and similar charges	23		7,830
0	Surplus Provision not Relating to Specific Services			(987)
4,498	Contributions of Housing Capital Receipts to Government Pool	37 (c)		1,585
0	Investment Losses			
(5,580)	Interest and Investment Income	22		(5,254)
6,040	Pensions Interest Costs & Expected Return on Assets	44 (a)		11,870
40	Previous Year Adjustment (change in Accounting Policy)			0
184,938	Net Operating Expenditure	753,228	(414,846)	377,418
(73,893)	Demand on Collection Fund			(76,823)
(12,954)	General Government Grants			(22,451)
(1,550)	Capital Grants not Relating to Specific Services			(741)
(77,190)	Non - Domestic Rates Redistribution			(84,572)
(704)	Transfers to the Collection Fund in respect of Surpluses/Deficit			
18,647	Deficit / (Surplus) for the Year			192,831

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

2007/08 £000's		2008/09 £000's
18,607	Deficit / (Surplus) for the Year on the Income and Expenditure Account	192,831
<u>40</u>	Previous Year Adjustment (change in Accounting Policy)	
18,647		
(19,941)	Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	(195,770)
<u>(40)</u>	Previous Year Adjustment (change in Accounting Policy)	
(19,981)	Restated Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	
(1,334)	Decrease/(Increase) in General Fund Balance for the Year	(2,927)
(10,922)	General Fund Balance Brought Forward	(12,256)
<u>(12,256)</u>	General Fund Balance Carried Forward	<u>(15,183)</u>
0	Amount of General Fund Balance held by Schools under Local Management schemes	0
(12,256)	Amount of General Fund Balance generally available for new expenditure	(15,183)
<u>(12,256)</u>	Total	<u>(15,183)</u>

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

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2007/08 £000's		Notes	2008/09 £000's
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund for the Year		
(247)	Amortisation of intangible fixed assets	26	(204)
(23,167)	Depreciation and Impairment of fixed assets		(202,441)
1,045	Revenue contribution to Deferred Assets	48	1,045
(33)	Deferred Consideration written down	50	(32)
(256)	Assets Transferred to CAPITA		(269)
(199)	Transfers to/from Major Repairs Reserve		(293)
1,464	Government Grants Deferred amortisation	57	3,622
(6,266)	Revenue Expenditure Funded from Capital Under Statute		(11,093)
462	Capital Receipts not matched by Disposal of Assets		0
11,003	Capital Grants & Contributions not transferred to Government Grants Deferred		8,716
0	Net (loss) / Gain on sale of fixed assets		1,373
	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on early repayment of debt		
(33,540)	Net charges made for retirement benefits in accordance with FRS 17	44 (a)	(26,930)
(40)	Previous Year Adjustment (change in Accounting Policy)		
(49,774)			(226,506)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund for the Year		
4,956	Minimum revenue provision for capital financing	21	5,009
2,820	Capital expenditure charged in-year to the General Fund Balance	37 (b)	12,778
(4,498)	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	37 (c)	(1,585)
0	Transfer from Financial adjustment Account to meet HRA item 8 requirements		61
21,210	Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	44 (a)	22,020
24,488			38,283
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
1,514	Housing Revenue Account balance		(720)
204	Voluntary revenue provision for capital financing	21	188
3,587	Net transfer to or from earmarked reserves		(7,015)
5,305			(7,547)
(19,981)	Transfers to or from the General Fund Balance for the Year		(195,770)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

2007/08 £000's		2008/09 £000's
18,607	Deficit / (Surplus) for the Year on the Income and Expenditure Account	192,831
40	Previous Year Adjustment (change in Accounting Policy)	
18,647		
(44,432)	Surplus arising on revaluation on fixed assets	4,926
16,353	Adjustment relating to change in HRA inflation factor applied for 2006/07	0
44	Attributable Movement on Collection Fund Balance	(1,486)
20	(Surplus)/deficit arising on revaluation of available-for-sale financial assets	(314)
0	(Surplus)/deficit arising from Financial Instrument adjustment account	(327)
(66,150)	Actuarial (gains) / losses on pension fund assets and liabilities	128,240
(70)	Previous Year Adjustment (change in Accounting Policy)	0
(75,588)	Total recognised gains for the year	323,870

In 2008/09 all expenditure which met the statutory definition of capital has been allocated to fixed assets and therefore there is a zero balance for 'Capital spend in year not resulting in change to Asset value.' See **note 17** on **pages 33-34** for further details.

BALANCE SHEET

This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2009.

31st March 2008		Notes	31st March 2009		
£000's			£000's	£000's	£000's
	Fixed Assets				
645	<i>Intangible Assets</i>	26		712	
	<i>Tangible Fixed Assets</i>				
	<i>Operational Assets</i>				
799,740	Council Dwellings	25 (a)	663,308		
595,153	Other Land and Buildings	25 (a)	588,409		
5,697	Vehicles, plant, furniture, and equipment	25 (a)	5,631		
84,868	Infrastructure assets	25 (a)	96,951		
				1,354,299	
	<i>Non-Operational Assets</i>				
152,819	Investment Properties	25 (b)	123,957		
8,736	Assets under construction	25 (b)	9,734		
288	Surplus assets, held for disposal	25 (b)	288		
				133,979	
1,647,946	Total Fixed Assets				1,488,990
1,081	Long Term Investments	31			6,351
7,105	Long Term Debtors	49			7,822
1,656,132	Total Long - Term Assets				1,503,163
	Current Assets				
1,281	Stocks, Stores and Work in Progress	51		1,239	
51,136	Debtors	52		56,486	
(13,837)	Less provision for bad and doubtful debts			(15,540)	
75,313	Short Term Investments	53		24,900	
222	Cash in Hand and Bank	54		159	
					67,244
1,770,247	Total Assets				1,570,407
	Current Liabilities				
(6,513)	Short Term Borrowing	30		(49,853)	
(66,886)	Creditors	52		(67,562)	
(7,682)	Bank Overdraft	54		(2,470)	
					(119,885)
1,689,166	Total Assets less Current Liabilities				1,450,522
	Long Term Liabilities				
(137,038)	Long Term Borrowing	30			(79,279)
(8,045)	Provisions	36			(8,252)
(35,662)	Government Grants Deferred	57			(43,535)
(20,820)	Deferred Liabilities	55			(19,987)
(136)	Deferred Capital Balances	56			(92)
(19,259)	Capital Grants & Contributions Unapplied	58			(21,891)
(164,820)	Liability Related to Defined Benefit Pensions Scheme	44(b)			(297,970)
1,303,386	Total Assets less Liabilities	27			979,516
	Financed by:				
41,039	Revaluation Reserve	37			35,875
1,369,881	Capital Adjustment Account	37			1,192,656
20	Available-for-Sale Financial Instruments Reserve	37			334
0	Financial Instrument Adjustment Account				327
(164,820)	Pension Reserve	44(b)			(297,970)
11,665	Usable Capital Receipts Reserves	37			6,015
0	Deferred Capital Receipts				
29,774	Earmarked Revenue Reserves	37			22,760
	<i>Revenue Balances</i>				
12,256	General Fund	37			15,183
3,108	Housing Revenue Account	37			2,387
463	Collection Fund Balance	37			1,949
1,303,386	Total Net Worth				979,516

Signed Chair of Meeting _____

CASH FLOW STATEMENT

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

<u>2007/08</u> £000's		<u>2008/09</u> £000's	<u>2008/09</u> £000's
(37,596)	Net Cash Inflow from Revenue Activities - Note 45(b)		(17,520)
	Returns on Investments and Servicing of Finance		
	<u>Cash Outflows</u>		
6,978	Interest Paid	7,663	
	<u>Cash Inflows</u>		
(4,941)	Interest Received	(4,258)	
<u>2,037</u>			<u>3,405</u>
	Capital Activities		
	<u>Cash Outflows</u>		
57,354	Expenditure on Fixed Assets	66,456	
998	Expenditure on Long term Investments	5,154	
	Other Capital Cash Payments		
<u>58,352</u>		<u>71,610</u>	
	<u>Cash Inflows</u>		
(17,805)	Sale of Fixed Assets	(4,720)	
(25,812)	Capital Grants Received	(18,398)	
(3,703)	Other Capital Cash Receipts	(4,628)	
<u>(47,320)</u>		<u>(27,746)</u>	
<u>11,032</u>			<u>43,864</u>
<u>(24,527)</u>	Net Cash(Inflow)/Outflow before Financing		<u>29,749</u>
	Management of Liquid Resources - Note 45(a)		
33,613	Net Increase/(Decrease) in Short-Term Deposits		(50,114)
	Financing		
	<u>Cash Outflows</u>		
167,007	Repayments of Amounts Borrowed		295,934
	<u>Cash Inflows</u>		
(41,000)	New Long Term Loans Raised	(61,598)	
(130,650)	New Short Term Loans	(219,120)	
<u>(171,650)</u>			<u>(280,718)</u>
<u>4,442</u>	Net (Increase)/Decrease in Cash - Note 45(c)		<u>(5,149)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued. There were no material changes during 2008/09 and therefore no separate disclosure is required in respect of the accounts.

2. Exceptional/Extraordinary Items and Prior Period Adjustments

The Balance Sheet figures for the 31 March 2008, in respect of the Pension Fund Reserve and the Liability Related to Defined Benefit Pensions Scheme, have been adjusted from those included in the Statement of Accounts for 2007/08 to accommodate the change in Accounting Policy required by adopting the amendment to FRS17, Retirement Benefits (See Note 44).

Liability Related to Defined Pensions Scheme/ Pension Fund Reserve	£000s	£000s
Balance (as per 07/08 Accounts)		(164,310)
PYA Change in Accounting Policy		
Brought forward balance	(540)	
Return on Assets	(40)	
Actuarial (Losses) Surplus on Fund	70	(510)
Restated Balances		<u>(164,820)</u>

In addition, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses have been restated to incorporate the above as follows:

	£000s
Income & Expenditure deficit per 07/08 Accounts	18,607
PYA - Return on Assets	40
Restated I&E Deficit	<u>18,647</u>

	£000s	£000s
Statement of Movement on the General Fund Balance		
Deficit / (Surplus) for the Year on the Income and Expenditure Account (as per 07/08 Accounts)		18,607
PYA (Change in Accounting Policy)		40
Restated I&E Deficit		<u>18,647</u>
Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the year (as per 07/08 Accounts)	(19,941)	
PYA (Change in Accounting Policy)	(40)	
Restated Amount		<u>(19,981)</u>
Decrease/(increase) in General Fund Balance (as per 07/08 Accounts)		(1,334)
General Fund Balance Brought Forward		(10,922)
General Balance Carried Forward		<u>(12,256)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

	£000s	£000s
Statement of Total Recognised Gains and Losses		
Deficit/ (Surplus) for the year on the Income and Expenditure Account (as per 07/08 Accounts)		18,607
PYA (Change in Accounting Policy)		40
Restated Deficit/ (Surplus) for the year on the Income and Expenditure Account		18,647
Surplus arising on revaluation on fixed Assets		(44,432)
Adjustment relating to change in HRA inflation factor applied for 2006/07		16,353
Attributable to movement on the Collection Fund Balance		44
Actuarial (gains) / losses on pension fund assets and liabilities (as per 07/08 Accounts)	(66,150)	
PYA	(70)	
Restated Amount		(66,220)
Total Recognised gains for the year		(75,608)

3. Undischarged Obligations – Private Finance Transactions

PFI Schools – During 2008/09, the Council paid a Unitary Charge of £5,735k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	5,864
2 - 5 Years	24,292
6 - 10 Years	31,913
More than 10 Years	87,776
Total	149,846

PPP Northlands Nursing Home – During 2008/09, the Council paid £2,162k under the terms of the contract. The Council has the following future obligations:

	£000
Within 1 Year	2,162
2 - 5 Years	8,648
6 - 10 Years	10,811
More than 10 Years	24,502
Total	46,123

These private finance contracts are discussed in more detail on **pages 18-19**.

4. Trading Activities

Trading services are disclosed in line with the requirements of the Best Value Accounting Code of Practice (BVACoP) and are mainly activities of a commercial nature that are financed substantially by charges made to recipients of the service.

Other trading activities include Trade Refuse that generated profits of £85k for 2008/09, (2007/08, £103k).

5. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit making charities within the UK and mayoral

NOTES TO THE CORE FINANCIAL STATEMENTS

appeals. The Council's expenditure for 2008/09 was £104k, against a statutory limit of £809k (£3.50 per head of population which for mid point 2008/09 was 231,200). In 2007/08 £202k was spent.

6. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires a local authority to keep a separate account of its expenditure on publicity. Expenditure on publicity in 2008/09 is set out in the table below. This includes the regular publications of City View and Tenants Link.

<u>2007/08</u> £000's	<u>2008/09</u> £000's
499 Recruitment Advertising	535
654 Other Advertising	845
1,119 Other Publicity	1,835
<u>2,272</u>	<u>3,215</u>

7. Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities cannot be charged for, such as providing general advice and liaising with other statutory authorities.

The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

<u>Building Regulations Charging Account</u>			
<u>Total Building Control</u> <u>2007/08</u> £000's	<u>Chargeable</u> <u>2008/09</u> £000's	<u>Non Chargeable</u> <u>2008/09</u> £000's	<u>Total Building Control</u> <u>2008/09</u> £000's
<u>Expenditure</u>			
574	507		507
0	0		0
19	14		14
36	16		16
<u>829</u>	<u>243</u>	<u>272</u>	<u>515</u>
1,458	780	272	1,052
<u>Income</u>			
1,207	551	11	562
<u>0</u>	<u>253</u>	<u>41</u>	<u>294</u>
1,207	804	52	856
<u>(251)</u>	<u>24</u>	<u>(220)</u>	<u>(196)</u>
Surplus/(Deficit) for Year			

8. Agency Arrangements

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

The Council currently has only one material arrangement in place; to provide a rehabilitation service for Southampton City Primary Trust. The total value of the service provided in 2008/09 was £29k (£627k for 2007/08)

NOTES TO THE CORE FINANCIAL STATEMENTS

9. Transport Act 2000

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

10. Business Improvement District Scheme

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

11. Local Authority (Goods and Services Act 1970)

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

	2007/08		2008/09	
	Income £000's	Expenditure £000's	Income £000's	Expenditure £000's
Public Bodies				
Other Local Authorities	2,334	2,334	2,063	2,063
Universities and colleges	66	66	167	167
Health Authorities / Trusts	438	438	90	90
Housing Associations	0	0	4	4
Other Public Bodies	295	295	58	58
	3,133	3,133	2,382	2,382

12. Pooled Budgets

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

Southampton Joint Equipment

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

2007/08 £000's	Southampton Joint Equipment Store (Previously Community Equipment)	2008/09 £000's
	Funding	
0	Brought Forward	(57)
(468)	Southampton City Council	(466)
(296)	Southampton City Primary Care Trust	(305)
(764)		(828)
707	Expenditure	798
(57)	Carried Forward	(30)

Residual, Domiciliary Care & Continuing Care Services

NOTES TO THE CORE FINANCIAL STATEMENTS

Partnership between Southampton City Council and Southampton City Primary Care Trust to commission residential, domiciliary care and continuing care services for former residents of a Locally Based Hospital Unit in Southampton.

2007/08 £000's	Locality Based Hospital Units	2008/09 £000's
	Funding	
0	Brought Forward	(350)
0	Southampton City Council	(4)
(434)	Southampton City Primary Care Trust	(2,836)
<u>(434)</u>		<u>(3,190)</u>
84	Expenditure	3,189
<u>(350)</u>	Carried Forward	<u>(1)</u>

Learning Disability Development Fund

Partnership between Southampton City Council and Southampton City Primary Care Trust to support the implementation of the "Valuing People: A New Strategy for Learning Disability for the 21st Century".

2007/08 £000's	Learning Disability Development Fund	2008/09 £000's
	Funding	
(28)	Brought Forward	(28)
0	Southampton City Council	
(201)	Southampton City Primary Care Trust	
<u>(229)</u>		<u>(28)</u>
201	Expenditure	
	Balance to southampton City Council	28
<u>(28)</u>	Carried Forward	<u>0</u>

Drug Services

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

2007/08 £000's	Drug Services	2008/09 £000's
	Funding	
(173)	Brought Forward	(272)
(600)	Southampton City Council	(313)
(2,195)	Southampton City Primary Care Trust	(2,036)
<u>(2,968)</u>		<u>(2,621)</u>
2,696	Expenditure	2,579
<u>(272)</u>	Carried Forward	<u>(42)</u>

13. Members Allowances

The total of members allowances paid in 2008/09 was £767k, (£734k in 2007/08).

NOTES TO THE CORE FINANCIAL STATEMENTS

14. Officers Emoluments

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

Band £	Number of Employees	
	2007/08	2008/09
50,000 - 59,999	108	143
60,000 - 69,999	42	34
70,000 - 79,999	20	31
80,000 - 89,999	7	10
90,000 - 99,999	2	2
100,000 - 109,999	2	2
110,000 - 119,999	3	4
120,000 - 129,999	2	2
130,000 - 139,999	0	0
140,000 - 149,999	0	0
150,000 - 159,999	2	1
	188	229

15. Related Party Transactions

The Accounting Code of Practice 1998 requires the Council to disclose material transactions with related parties. This has been introduced to bring local authorities in line with the private sector. For the City Council a "Related Party" is considered to be:

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

During the year major transactions with related parties arose with; Hampshire Superannuation Fund and Teachers Pensions Agency as disclosed on **pages 52 to 57**; Hampshire Police Authority precept of £8,866K and Hampshire Fire & Rescue Services precept of £3,809K shown in the Collection Fund, **page 73**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants; these are set out in the cash flow statement and notes, **pages 27 & 57 to 58**.

For the elected members and chief officers it also includes members of their close family, their households and any company, trust etc in which they have a controlling interest. Elected members and chief officers were requested to disclose any related party transactions; no material transactions were disclosed for 2008/09.

16. Disclosure of Audit Fees

The Council's appointed auditors are the Audit Commission. The Authority incurred the following fees relating to external audit and inspection. The fees for other services related to specialist advice for work and for 2008/09 included work on improving governance, highways maintenance & 2007-2008 Electors and for 2007/08 included work on National Fraud initiatives.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2007/08</u> £000's	<u>2008/09</u> £000's
419 Statutory Audit & Inspection	323
70 Certification of Grant Claims and Returns	79
1 Other Services	28
<u>490</u>	<u>430</u>

17. Fixed Assets

Fixed assets are shown at a current valuation of £1,489M, an decrease of £159M. The basis of valuation is explained in more detail on **pages 12 to 13**. 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 2009.

The movement in Fixed Assets in the year comes about due to changes to asset valuations, disposals of existing fixed assets, new acquisitions and enhancements to assets funded by capital expenditure. In previous years a large element of the Council's capital expenditure was treated as not enhancing the value of assets and was written off to the Fixed Asset Restatement Account. The 2007 SORP encourages local authorities to treat all capital expenditure as enhancing the value of assets

As a result of revaluations undertaken by the valuation department of the Council there is an decrease in asset values of £183M, which reflects the decline in the property market. See **pages 13 to 14** for details of methods of depreciation used.

The brought forward certified valuation and accumulated depreciation and impairment figures have been adjusted to allow for asset that have been fully depreciated and are no longer on the asset register. The Net book figure has not changed.

<u>Movement on Operational Fixed Assets During 2008/09</u>					
	<u>Council</u> <u>Dwellings</u> <u>£000</u>	<u>Other Land</u> <u>and</u> <u>Buildings</u> <u>£000</u>	<u>Vehicles, Plant</u> <u>and</u> <u>Equipment</u> <u>£000</u>	<u>Infrastructure</u> <u>£000</u>	<u>£000</u>
Certified Valuation at 31 March 2008	799,740	630,484	12,713	92,301	1,535,238
Accumulated depreciation and impairment		(35,331)	(7,016)	(7,433)	(49,780)
Net Book Value of Fixed Assets at 31st March 2008	799,740	595,153	5,697	84,868	1,485,458
Movement in Year					
Transfers between Categories			81		81
Additions	25,440	17,128	1,458	14,269	58,295
Disposals	(2,165)	(757)			(2,922)
Revaluations	(8,058)	3,503			(4,555)
Depreciation	(12,206)	(19,492)	(1,605)	(2,186)	(35,489)
Impairments	(139,443)	(7,126)			(146,569)
Net Book Value of Fixed Assets at 31st March 2009	663,308	588,409	5,631	96,951	1,354,299

NOTES TO THE CORE FINANCIAL STATEMENTS

Movements on Non - Operational Fixed Assets During 2008/09				
	<u>Investment</u>	<u>Under Construction</u>	<u>Surplus held for Disposal</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Certified Valuation at 31 March 2008	153,540	8,736	288	162,564
Accumulated depreciation and impairment	(721)	0	0	(721)
Net Book Value of Fixed Assets at 31st March 2007	152,819	8,736	288	161,843
Movement in Year				
Transfers		(81)		(81)
Additions	4,754	1,079	0	5,833
Disposals	(363)			(363)
Revaluations	(371)			(371)
Impairments	(32,882)			(32,882)
Net Book Value of Fixed Assets at 31st March 2009	123,957	9,734	288	133,979

Capital expenditure and how it was financed is analysed below:

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	2007/08	2008/09
	£'000s	£'000s
Opening Capital Financing Requirement	200,453	204,244
07/08 Adjustment		4,011
Adjustment for		
Deferred Assets	1,045	1,045
Deferred Considerations	(289)	-
Capital Investment		
Intangible assets	612	272
Operational assets	48,495	58,295
Non - operational assets	1,726	5,833
Deferred Charges	6,266	11,093
Sources of Finance		
Capital Receipts	(7,989)	(8,762)
Government grants & other contributions	(33,589)	(32,466)
Direct Revenue Financing	(2,820)	(12,778)
Deferred Assets	(1,045)	(1,045)
MRP	(5,160)	(5,197)
Other Adjustments	(3,461)	15
Closing Capital Financing Requirement	204,244	224,560
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	7,102	8,782
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,597	12,705
MRP	(5,160)	(5,197)
Other Adjustments	(3,748)	4,026
Increase/(decrease) in Capital Financing Requirement	3,791	20,316

NOTES TO THE CORE FINANCIAL STATEMENTS

18. Commitments Under Capital Contracts

The Council has a number of major contracts that run beyond 31st March 2009, totalling £28.2M, these are summarised below.

<u>Significant Commitments for Capital Expenditure After 31 March 2009</u>	
	£000's
Decent Homes/Decent Homes Plus	12,334
Decent Neighbourhoods	4,080
Private Sector Home Improvement Loans	2,975
Housing Associations	2,065
Modernisation of Southampton Day Services	1,757
Learning Futures	1,429
North/South Spine	1,250
Disabled Facilities Grants	1,221
Children's Centres	1,079
Tudor House Museum	919
Other	3,522
Total	32,631

19. Assets Held

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Estimate of Major Fixed Assets of the Council</u>		
	<u>31.03.08</u>	<u>31.03.09</u>
	No,s	No,s
Council Dwellings	17,229	17,199
Shops	237	237
Other Commercial Properties	178	176
Civic Centre	1	1
Depots	2	2
Central and Area Offices	4	4
Early Years	1	1
Infant/Primary schools	45	45
Junior Schools	16	16
Secondary Schools	14	14
Special schools	5	5
Activity Centres and Youth Clubs	12	12
Children's Services - residential centres	2	2
Social Services-residential centres	7	6
Social Services-day centres	8	8
Off Street Car Parks	54	54
Libraries	8	8
Leisure Centres and Pools	6	6
Museums, Galleries and Related	6	6
Roads-Length (km)	579	579
Open Spaces and Recreation Areas (hectares)	977	977
Markets	1	1
Cemeteries	6	6
Crematorium	1	1
Toilets	28	28
Ski Slope	1	1
Golf Course	1	1
Local Housing Offices/Advice Centres	13	13
Laboratory	1	1

20. Leasing

a) Finance Leases

The Council holds 4 finance leases relating to vehicles and equipment. These are all in their secondary period, for which a peppercorn rent is paid, amounting to £208 during 2008/09 and £208 for 2009/10 and thereafter until assets are disposed. No new finance leases were entered into during the year. As these assets are expected to be disposed of within the next 3 years, total outstanding obligations relating to finance leases amount to less than £600.

b) Operating Leases

During 2008/09, £1,984k was paid out in respect of operating lease rentals for vehicles and equipment. As at 31st March 2009 the Council has a commitment to meet leasing rentals on these of £3,658k until 2013/14.

The Council also has commitments on the following buildings amounting to £41,070k, detailed as follows; Castle Way £500k; Southbrook Rise £920k; Frobisher House £1,951k; Regional Business Centre, Above Bar Street £34,555k (the Regional Business Centre figure relates to a new 40 year lease commitment and is an estimate of the Council's future commitment over the term of the lease).

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Operating Leases			
	Vehicles & Equipment £'000's	Land & Buildings £'000's	Total £'000's
2009/10	1,417	1,288	2,705
2010/11 - 2013/14	2,241	5,227	7,468
2014/15 -2050/51	0	34,555	34,555
	<u>3,658</u>	<u>41,070</u>	<u>44,728</u>

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

21. Minimum Revenue Provision (MRP)

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. The method of calculating the provision is defined by statute. In addition voluntary repayments are being made in respect of unsupported borrowing. The table below details the amounts set aside in the year.

<u>2007/08</u> £000's		<u>2008/09</u> £000's
4,241	Statutory amount charged to Revenue	4,176
867	Payments to HCC in respect of transferred debt	833
(152)	Credit to revenue (commutation adjustment)	0
<u>4,956</u>		<u>5,009</u>
204	Voluntary repayments	188
<u>5,160</u>		<u>5,197</u>

22. Interest and Investment Income

The table below details the amounts for the year.

<u>2007/08</u> £000's		<u>2008/09</u> £000's
4,374	Temporary Investments	4,106
845	HRA Cash Balances	684
361	Other	464
<u>5,580</u>		<u>5,254</u>

23. Interest Payable and Similar Charges

The table below details the amounts for the year.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2007/08</u> £000's		<u>2008/09</u> £000's
5,845	Interest on External Loans	5,552
1,198	Payments to HCC in respect of Transferred Debt	952
1,697	Interest on Funds held	1,326
191	Other	0
<u>8,931</u>		<u>7,830</u>

24. Assets Recognised under PFI Arrangement

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

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

25. Assets – Valuation Information

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

NOTES TO THE CORE FINANCIAL STATEMENTS

a) Operational Assets

<u>Valuations of Tangible Fixed Assets carried at Current Value</u>					
Operational Assets					
	<u>Council Dwellings</u>	<u>Other Land and Buildings</u>	<u>Vehicles, Plant and Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Valued at Historic Cost			5,631	96,951	102,582
Valued at Current Value in:					
2008/09	663,308	43,021			706,329
2007/08		45,308			45,308
2006/07		8,180			8,180
2005/06		479,587			479,587
2004/05		12,313			12,313
Net Book Value of Fixed Assets at 31 March 2009	663,308	588,409	5,631	96,951	1,354,299

b) Non Operational Assets

<u>Valuations of Tangible Fixed Assets carried at Current Value</u>				
Non - Operational Assets				
	<u>Investment</u>	<u>Under Construction</u>	<u>Surplus held for Disposal</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Valued at Historic Cost		9,734		9,734
Valued at Current Value in:				
2008/09	34,364			34,364
2007/08	50,221			50,221
2006/07	33,291		255	33,546
2005/06	34,741			34,741
2004/05	(28,660)		33	(28,627)
Net Book Value of Fixed Assets at 31 March 2009	123,957	9,734	288	133,979

26. Intangible Assets

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Purchased Software	
	£000's
Original Cost	1,009
Amortisation to 1st April 2008	(365)
Balance at 1st April 2008	644
Expenditure in Year	272
Written off to Revenue in Year	(204)
Balance at 31st March 2009	712

Expenditure on intangible assets in 2008/09 all relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset. Significant items purchased during the year include £116k for the Social Services Care Management System.

27. Analysis of Net Assets Employed

In accordance with SSAP 25 there is a requirement to disclose the breakdown of the Authority's overall net asset position; this is detailed in the table below. General fund assets have mainly increased due to the revaluation of investment properties.

<u>2007/08</u> £000's	<u>2008/09</u> £000's
549,216 General Fund	358,491
754,170 Housing Revenue Account	621,025
<u>1,303,386</u>	<u>979,516</u>

28. Interest in Companies

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

See Accounting Policies **Note 17** on *page 17* for further information.

29. Capital Instruments

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

30. Borrowing

Loans Falling due Within One Year

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> <u>31.03.08</u>	<u>Loan</u> <u>Principal</u>	<u>Accrued</u> <u>interest</u>	<u>Financial</u> <u>Instrument</u> <u>Adjustment</u>	<u>Outstanding</u> <u>31.03.09</u>
£000's	£000's	£000's	£000's	£000's
<u>Source of Loan</u>				
0 Public Works Loan Board	32,000	169	872	33,041
6,513 Other Financial Institutions	16,717	95	0	16,812
6,513	48,717	264	872	49,853

Long-Term Borrowing

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

<u>Outstanding</u> <u>31.03.08</u>	<u>Loan</u> <u>Principal</u>	<u>Accrued</u> <u>interest</u>	<u>Financial</u> <u>Instrument</u> <u>Adjustment</u>	<u>Outstanding</u> <u>31.03.09</u>
£000's	£000's	£000's	£000's	£000's
<u>Source of Loan</u>				
125,000 Public Works Loan Board	67,000	0	558	67,558
12,038 Other Financial Institutions	11,721	0	0	11,721
137,038	78,721	0	558	79,279
<u>Analysis of Loans by Maturity</u>				
0 Between 1 and 2 years	17,066	0	330	17,396
0 Between 2 and 5 years	20,555	0	229	20,784
10,000 Between 5 and 10 years	1,159	0	0	1,159
127,038 More than 10 years	39,941	0	0	39,940
137,038	78,721	0	559	79,279

31. Financial Instrument Balances

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

	Long-Term		Current	
	31st March 2008 £000	31st March 2009 £000	31st March 2008 £000	31st March 2009 £000
Financial liabilities at amortised cost	157,859	99,266	6,513	49,853
Financial liabilities at fair value through profit and loss	0	0	0	0
Total borrowings	157,859	99,266	6,513	49,853
Loans and Receivables	36	36	75,313	24,900
Available-for-sale financial assets	1,045	6,315	0	0
Unquoted equity investment at cost	0	0	0	0
Total investments	1,081	6,351	75,313	24,900

32. Financial Instruments Gains/Losses

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09				
	Financial Liabilities		Financial Assets	
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	Total £000
Interest expense	(6,504)	0	0	
Losses on derecognition	(22)	0	0	
Impairment Losses	0	0	0	
Interest payable and similar charges	(6,526)	0	0	(6,526)
Interest income	0	4,106	152	
Gains on derecognition	49	0	0	
Interest and investment income	49	4,106	152	4,307
Gains on revaluation			314	
Losses on revaluation			0	
Amounts recycled to the I&E Account after impairment			0	
Surplus arising on revaluation of financial assets			314	
Net gain / (loss) for the year	(6,477)	4,106	466	

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.

When a 'modification' occurs the premium or discount incurred is added to the value of the new loan and recovered via the Effective Interest rate calculation, which is derived by adding the interest due on the new loan to the discount or premium and recalculated to recover the net balance over the life of the new loan.

The table below shows the gains and losses relating to financial instruments, for the previous year as a comparative to the table above.

2007/08				
	Financial Liabilities		Financial Assets	
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	Total £000
Interest expense	(7,043)	0	0	
Losses on derecognition	(700)	0	0	
Impairment Losses	0	0	0	
Interest payable and similar charges	(7,743)	0	0	(7,743)
Interest income	0	4,374	36	
Gains on derecognition	730	0	0	
Interest and investment income	730	4,374	36	5,140
Gains on revaluation			20	
Losses on revaluation			0	
Amounts recycled to the I&E Account after impairment			0	
Surplus arising on revaluation of financial assets			20	
Net gain / (loss) for the year	(7,013)	4,374	56	

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

- PWLB Debt – confirmation of Fair Values from the PWLB. The 2009 figure has been calculated by reference to the 'premature repayment' set of rates in force on 31 March 2009. The 2008 figure has been calculated by reference to the set of rates in force on 30 March 2008.
- Long Term Market Debt – based on premature redemption figures quoted by the banks concerned. Where this information was not available a calculation has been made based on the information provided by other banks for similar loans.
- Long Term Debtors:
 - Mortgages. These relate mainly to loans outstanding for the purchase of council houses. The fair value has been calculated on a discounted cash flow basis using a discount rate of 2.42%.
 - PFI Schools Residual Value. The value of the PFI Schools long term debtor for residual value is the value of the assets passing to the Council at the end of the contract multiplied by the proportion of the contract term that has expired. This is deemed to be the fair value and is therefore not included in the table below.
 - PFI Schools Deferred Consideration. This represents the benefit the Council receives from donating a sports hall to the PFI contract in the form of a reduced unitary charge. The fair value has been calculated on a discounted cash flow basis using a discount rate of 4.33%.
 - IT Assets transferred to Capita. This represents the benefit the Council receives from transferring IT assets to the contract with Capita in the form of lower contract charges. This is deemed to be the fair value and is therefore not included in the table below.
- Eurosterling Bonds – quoted Bid price at 31 March published by Bloomberg. These are carried on the Balance Sheet at Fair Value and so are not included in the table below.
- Gilts. The Council holds a small number of gilts. The fair value has been calculated by reference to published market prices.

Disclosure is not required where the carrying amount of an instrument is not materially different from the fair value. The tables below therefore exclude short term borrowing, investments, debtors and creditors as the fair value of these instruments are deemed to approximate to the carrying amount.

The fair values calculated are as follows:

	31st March 2008		31st March 2009	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial liabilities	158,772	166,064	100,114	137,537

The fair value is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the premature repayment rates available for similar loans at the balance sheet date. The commitment to pay interest above these rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31st March 2008		31st March 2009	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Loans and receivables	36	33	36	34

NOTES TO THE CORE FINANCIAL STATEMENTS

The amounts in the above table represent small amounts invested in Gilts which would be classified as Available for Sale. As these are not considered material they have been measured at cost on the Balance Sheet. The fair value is less than the carrying amount because the current market price for these gilts is less than the cost price.

34. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. The Council had a credit risk policy of not placing deposits with banks and financial institutions unless they were rated independently with a minimum score (Fitch Long Term rating) of A. However, since the recent uncertainties in the financial markets associated with the 'credit crunch' the Council has proactively reviewed this policy and increased the minimum criteria.

Following market uncertainty in the early part of 2008, it was decided to try to place all of the Council's investments with AA- institutions or above. In May 2008, following the downgrading of many banks within the market this was further tightened so that the Council only lent to institutions of AA- or greater regardless of the amount of money involved. At the end of September 2008 the decision was taken to only place new or maturing deposits with the Debt Management Office (DMO) which is guaranteed by the UK Government and is therefore a AAA rated investment. For investments of less than £250,000 (the minimum amount the DMO will accept) it was decided to use the Council's AAA rated instant-access Money Market Funds.

All of these decisions were taken in response to the changing market conditions and following advice from the Council's Treasury advisors. The unprecedented events since then, including the collapse of major financial institutions in the USA and the Icelandic banking collapse highlighted the fact that the Council had made the right decisions at the right time.

In the early part of 2009, following advice from the Council's Treasury advisors, it was decided to reintroduce certain UK banks and building societies who had implicit or explicit expressions of support from the UK government as clients' investment counterparties; this does not include their subsidiary banks. The maximum limit per bank was £5M. The maximum maturity period for any of these investment deals was 3 months. All other funds were still invested with the Debt Management Office. This strategy is kept under constant review until the markets settle down and revert to more normal levels.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Credit Rating	31st March 2008		31st March 2009	
	£000	%	£000	%
A-	0	0%	9,000	37%
A	2,000	3%	0	0%
A+	10,368	14%	0	0%
AA-	44,225	59%	8,400	35%
AA	11,900	16%	0	0%
AA+	3,132	4%	0	0%
AAA	3,525	5%	6,635	28%
Total Investments	75,149	100%	24,035	100%

The table below summarises the maturity profile of the Council's short term investments together with the long and short term credit ratings of the institutions with which funds have been deposited. As at the 30th June 2009 there was £4M of investments deposited with Irish Banks which fell below the Council's investment policy of placing deposits with institutions with AA- long term credit ratings. Of this amount, £2M is due to be repaid to the Council on 2nd July 2009 and the remaining balance is due to be repaid on 17th August 2009. The authority does not expect any losses from non-performance by any of its counterparties in relation to its investments.

Outstanding Investments as at 31st March 2009					Under 1	1-3	3-6	Over 12	Total
Country	UK Gov't Credit Guarantee Scheme	Long Term rating	Short term rating	Month	Months	Months	Months		
UK									
Bank Deposits	Yes	AA-	F1 +	1,575	825	3,000	3,000	8,400	
Money Market Funds	-	AAA	-	6,635	0	0	0	6,635	
Ireland									
Bank Deposits	No	A-	F1 +	0	3,000	4,000	0	7,000	
Bank Deposits	No	A-	F1	0	2,000	0	0	2,000	
Total Investments				8,210	5,825	7,000	3,000	24,035	

Liquidity Risk

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

The maturity analysis of the Council's borrowing is shown in note 30. All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

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

The Authority has a number of strategies for managing interest rate risk. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 25% on external debt that can be subject to variable interest rates. During periods of falling interest rates, and where economic circumstances make it favourable,

NOTES TO THE CORE FINANCIAL STATEMENTS

fixed rate loans will be repaid early to limit exposures to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

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

However, as all the Council's investments are at fixed rates and all debt is at fixed rates there is no impact on interest payable or receivable on borrowings and investments at 31 March 2009 from any changes in interest rates.

Price Risk

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

Foreign Exchange Risk

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

35. Insurance Provisions

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

The estimated outstanding reserve for 'claims reported but not settled' as at 31 March 2009 amounted to £2.941M with a closing fund balance of £6.253M. With regard to the outstanding reserve figure, the Councils insurers allocate a claim reserve figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding reserve figure however unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The reserve figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

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

36. Provisions

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	£000's			Balance at 31st March 2009
	Balance at 1st April 2008	Receipts in Year	Payments in Year	
	<u>General Fund</u>			
Itchen Bridge Repairs	1,073	182		1,255
General Insurance Funds	5,722	3,986	(3,000)	6,708
Faulty Windows	0	0		0
UPVC Plant	158	26	0	184
Minimum Revenue Provision Commutation	987	0	(987)	0
Other Provisions	105	0	0	105
Total	8,045	4,194	(3,987)	8,252

37. Reserves

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

All interest earned on the reserves together with interest earned on General Fund Capital Receipts Unapplied is reflected in the General Fund Revenue account in 2008/09. The level of school balances is the result of the spending decisions of individual schools under the Local Management of Schools legislation. Each school's reserve will be available to it in future years. A statement of all Revenue Reserves is shown on **page 51**.

	Balance at 1st April 2008	Net Movement in year	Balance at 31st March 2009	Purpose of Reserve	Further Detail of movement
	£'000	£'000	£'000		
Revaluation Reserve	41,039	(5,164)	35,875	Gains on revaluation of fixed assets	a) below
Capital Adjustment Account	1,369,881	(177,225)	1,192,656	Records all movement on fixed assets with the exception of revaluation reserves	b) below
Usable Capital Receipts	11,665	(5,650)	6,015	Proceeds of fixed asset sales available to meet future capital investments	c) below
Pension Reserve	(164,820)	(133,150)	(297,970)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	Note 44 to the Core Financial Statements, pages 52-57
Housing Revenue Account	3,108	(721)	2,387	Resources available to meet future running costs of housing services.	HRA Statements page 67
Collection Fund Balance	463	1,486	1,949	Southampton City Council's share of the Collection Fund surplus.	Collection Fund Statement page 75
Available-for-Sale Financial Instruments Reserve	20	314	334	Movement in fair value on investment bond due to changing economic conditions	Note 32 to the Core Financial Statements, page 39
Financial Instrument Adjustment Account	0	327	327	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	d) below
General Fund Balances	12,256	2,927	15,183	Resources available to meet future running costs of non- housing services.	Statement of Movement on the General Fund Balance, page 23
Other Reserves	29,774	(7,014)	22,760		e) below
TOTAL RESERVES	1,303,386	(323,870)	979,516		

NOTES TO THE CORE FINANCIAL STATEMENTS

a) Revaluation Reserve

This reserve is debited or credited with the impact of the revaluation of assets since the 1 April 2007. The size of the Reserve of £36M shows the major impact that the valuing of fixed assets has had on the Council's Accounts. It is, however only a notional reserve and cannot be used as a source of finance.

2007/08		2008/09	
£000's		£000's	
0	Balance Brought Forward	(41,039)	
(44,432)	Revaluations in year	4,926	
3,393	Accumulated Revaluations on Disposals	238	
0	Historic Cost Depreciation Adjustment	0	
<u>(41,039)</u>	Balance Carried forward	<u>(35,875)</u>	

b) Capital Adjustment Account

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

2007/08		2008/09	
£000's		£000's	
1,401,215	Balance Brought Forward	1,369,881	
CAPITAL FINANCING			
7,989	Usable Capital Receipts	8,762	
11,003	Capital Grants & Contributions	8,766	
12,233	Major Repairs Allowance	12,206	
2,820	Revenue Contributions	12,778	
OTHER MOVEMENTS			
(6,266)	Deferred Charges Written Down	(11,093)	
1,045	Deferred Assets	1,045	
(289)	Deferred Considerations	(301)	
(35,847)	Depreciation & Impairment	(215,144)	
(17,423)	Disposals	(3,285)	
3,393	Accumulated Revaluations on Disposals	238	
(16,353)	Adjustment to HRA Assets Opening Balance	0	
5,160	MRP	5,197	
1,464	Government Grants Deferred	3,621	
(263)	Other	(15)	
<u>1,369,881</u>		<u>1,192,656</u>	

c) Useable Capital Receipts Reserves

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2007/08		2008/09		<u>Total</u> £000's
<u>Total</u>		<u>Housing Revenue</u>	<u>General</u>	
£000's		<u>Account</u> £000's	<u>Fund</u> £000's	
6,267	Opening Balance at 1st April	70	11,595	11,665
Receipts in Year:-				
Sale of Assets				
6,138	Council Housing	2,191		2,191
11,667	Land, Buildings & Equipment	37	2,426	2,463
54	Repayment of Advances	44		44
169	Other		22	22
<u>24,295</u>		<u>2,342</u>	<u>14,043</u>	<u>16,385</u>
(76)	Allowable deduction arising from Disposal	(62)	0	(62)
<u>24,219</u>		<u>2,280</u>	<u>14,043</u>	<u>16,323</u>
Application in Year:-				
0	Inter Portfolio Transfer	(253)	253	0
(7,990)	Financing of new Capital Expenditure	(320)	(8,442)	(8,762)
(4,498)	Pooled Receipts	(1,585)		(1,585)
(66)	Other Adjustments	39	0	39
<u><u>11,665</u></u>	Closing Balance at 31st March	<u><u>161</u></u>	<u><u>5,854</u></u>	<u><u>6,015</u></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 restructure.

2007/08		2008/09
£000's		£000's
0	Balance Brought Forward	0
	Discounts on Early Repayments of Loans	(864)
	Premiums on Early Repayments of Loans	599
	HRA Item 8 adjustments	(62)
<u><u>0</u></u>	Balance Carried forward	<u><u>(327)</u></u>

e) Other Earmarked Reserves

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance at</u> <u>31.03.08</u>		<u>Net Movement</u> <u>in Year</u>	<u>Balance at</u> <u>31.03.09</u>
£000's	<u>Other Earmarked Reserves</u>	£000's	£000's
12	HCC Admin/Sales Adjustment	(12)	0
4,723	PFI Sinking Fund	(152)	4,571
34	SCC External Investments	0	34
7,463	School Balances	(1,789)	5,674
1,401	On Street Parking	431	1,832
359	Transport Repairs Equalisation	(121)	238
0	Invest to Save	0	
540	Transformation Top Up Reserve	(334)	206
16	Housing Act Advances	1	17
15,226	Housing Revenue Contributions to Capital	(5,112)	10,114
0	Cremator Replacement	74	74
<u>29,774</u>		<u>(7,014)</u>	<u>22,760</u>

38. Contingent Liabilities and Assets

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

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

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

The Council has received a number of equal pay claims which are due to proceed to Tribunal. These claims are currently being assessed and reviewed by a Barrister appointed by the Council. At this stage the Council has not accepted the validity of any claims received, will be challenging claims as appropriate and has therefore not made a provision in the accounts.

39. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by the council's Standards and Governance Committee on 25th June 2009.

40. Post Balance Sheet Events

There are no post balance sheet events to report.

41. Trust Funds

As required by the Statement of Recommended Practice, Trust Funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. Details of Trust Funds where the Council is sole trustee can be found on **pages 76-80**.

42. Reserves and Balances held by Schools

These are balances held by schools under delegated schemes and are committed to be spent on education services. School balances as at 31st March 2009 (31st March 2008) total £6,588k (£7,463k), consisting of £6,322k (£7,842k) reserves and £266k (£379k) loans.

NOTES TO THE CORE FINANCIAL STATEMENTS

43. Amounts Due to or from Related Parties

As at 31st March 2009, significant monies outstanding from related parties were:

2007/08		2008/09	
<u>Money Owed to SCC</u>			
£000's		£000's	
2,708	HM Revenues & Customs (VAT)	1,830	
2,731	Department for Works & Pensions (Housing Benefits)	3,088	
5,669	Department of Communities and Local Government	3,213	
11,108	Balance Carried forward	8,131	

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

2007/08		2008/09	
<u>Money Owed by SCC</u>			
£000's		£000's	
4,683	National Insurance & PAYE	4,429	
1,880	Local Government Superannuation	2,047	
944	Teacher's Superannuation	882	
3,288	Department for Children Schools & Families (DCSF)	111	
8,334	Department of Communities and Local Government	3,921	
19,129	Balance Carried forward	11,390	

44. Retirement Benefits

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

The authority participates in two schemes:

- The Local Government Pension Scheme through Hampshire County Council Pension Fund – this is a funded defined benefit scheme, meaning that the authority 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 FRS17, pension costs are recorded as if the scheme was a defined contribution scheme.

Change of accounting policy

Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of the schemes assets at 31 March 2008 have been restated from £373.96M to £373.45M, a decrease of £0.51M, resulting in an increase of the pension deficit of £0.51M (31 March 2007 increase of £0.54M).

NOTES TO THE CORE FINANCIAL STATEMENTS

As a result of this change in Accounting Policy the Previous Years Balance Sheet Figures have been restated resulting in minor changes to the Income and Expenditure Account, the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses see Note 2 Exceptional/Extraordinary Items and Prior Period Adjustments.

a) Current Service Costs

In 2008/09, the Council paid an employer's contribution of £21.0M (07/08 - £21.2M) into Hampshire County Council's Pension Fund, equating to 18.1% of gross pay (07/08 - 295% of employee's contributions). The contribution rate is determined by the Fund's Actuary, based on triennial valuations. As a result of the new LGPS the employers' contributions are now related to gross pay this increases to 18.6% in 2009/10 and 19.1% in 2010/11.

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

	2007/08			2008/09	
	£000's	£000's	£000's	£000's	£000's
Income and Expenditure Account					
<i>Net Cost of Service</i>					
Current service costs			21,560		14,560
Past service costs			5,940		500
<i>Net Operating Expenditure</i>					
Interest Cost	31,460			36,800	
Expected return on assets in the scheme (as per 07/08 Accounts)	(25,420)	6,040		(24,930)	
PYA (Change in Accounting Policy)		40	6,080	0	11,870
			<u>33,580</u>		<u>26,930</u>
Net Charge to the Income and Expenditure Account					

	2007/08		2008/09	
	£000's		£000's	
Statement of Movement in the General Fund Balance				
Reversal of net charges made for retirement benefits in accordance with FRS 17 (as per 07/08 Accounts)		(33,540)		(26,930)
PYA (Change in Accounting Policy)		<u>(40)</u>		0
Restated balance			<u>(33,580)</u>	<u>(26,930)</u>
<i>Actual amount charged against the General Fund Balance for Pensions in the Year:</i>				
Employers' contributions payable to scheme			<u>21,210</u>	<u>22,020</u>
			<u>(12,370)</u>	<u>(4,910)</u>

b) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2009 are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	*	*	Restated	Restated	
	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
	£000's	£000's	£000's	£000's	£000's
Present value of funded Liabilities in scheme (LGPS)	(436,930)	(512,160)	(551,180)	(505,100)	(571,440)
Present value of unfunded liabilities (Teachers & LGPS)	<u>(17,670)</u>	<u>(32,970)</u>	<u>(36,160)</u>	<u>(33,170)</u>	<u>(34,740)</u>
Total present value of liabilities	(454,600)	(545,130)	(587,340)	(538,270)	(606,180)
Fair value of Share of Assets in the Fund (as per 07/08 Accounts)	262,070	335,130	369,210	373,960	308,210
PYA (Change in Accounting Policy)	-	-	(540)	(510)	0
Restated balance	<u>262,070</u>	<u>335,130</u>	<u>368,670</u>	<u>373,450</u>	<u>308,210</u>
Net Asset / (Liability)	<u>(192,530)</u>	<u>(210,000)</u>	<u>(218,670)</u>	<u>(164,820)</u>	<u>(297,970)</u>

* The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17 (as revised)

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £297,970k (07/08 Restated £164,850k) has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

c) Assets and liabilities in relation to retirement benefits

The latest actuarial valuation of liabilities took place 31 March 2007 this has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2009.

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

Reconciliation of present value of scheme liabilities	
<u>2007/08</u>	<u>2008/09</u>
£000's	£000's
(587,340) Opening Balance	(538,270)
(21,560) Current Service Cost	(14,560)
(5,940) Past Service Costs (added years)	(500)
(31,460) Interest costs	(36,800)
(6,500) Contributions by Participants	(7,140)
98,460 Actuarial Losses/(Gains) on liabilities	(25,400)
16,070 Net Benefits Paid Out	16,490
<u>(538,270)</u> Balance Carried Forward	<u>(606,180)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of fair value of schemes assets

<u>2007/08</u> £000's	<u>2008/09</u> £000's
369,210 Opening Balance (as per 07/08 Accounts)	373,450
(540) PYA (Change in Accounting Policy)	0
<u>368,670</u> Restated Opening Balance	<u>373,450</u>
25,420 Expected Rate of Return (as per 07/08 Accounts)	24,930
(40) PYA (Change in Accounting Policy)	0
(32,310) Actuarial (Losses)/ Gain on assets (as per 07/08 accounts)	(102,840)
70 PYA (Change in Accounting Policy)	0
19,030 Contributions	19,810
6,500 Contributions by participants	7,140
(13,890) Net benefits paid out	(14,280)
<u><u>373,450</u></u> Balance Carried Forward	<u><u>308,210</u></u>

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

	<u>2007/08</u>	<u>2008/09</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.3	22.2
Women	23.4	24.2
Longevity at 65 for future pensioners (currently aged 45):		
Men	23.2	24.5
Women	24.6	26.4
Inflation	3.7%	3.6%
Rate of general long-term increase in salaries	5.2%	5.1%
Rate of increase in pensions in payment	3.7%	3.6%
Rate of increase to deferred pensions	3.7%	3.6%
Discount rate	6.8%	6.6%
Take-up option to convert annual pension into retirement lump sum	25.0%	25.0%

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 with 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 2009.

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 FRS17 purposes.

NOTES TO THE CORE FINANCIAL STATEMENTS

	Long-term rate of return expected at 31st March 2008	Asset split at 31 March 2008	Long-term rate of return expected at 31st March 2009	Asset split at 31 March 2009
	(% pa)	(%)	(% pa)	(%)
Equities	7.6	62	7.0	55
Property	6.6	6	6.0	7
Government Bonds	4.6	27	4.0	28
Corporate Bonds	6.8	0	5.8	4
Other Assets	6.0	5	1.6	6
Total	6.7	100	5.7	100

d) Actuarial Gain / Losses Relating to Pensions

The actuarial gains identified as movements on the pensions Reserve in 2008/09 and are analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009:

	<u>Actuarial Gain/(Loss) for Year</u>										
	<u>2004/05</u>		<u>2005/06</u>		<u>2006/07</u>		Restated <u>2007/08</u>		<u>2008/09</u>		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	9,200	3.5	44,150	13.2	(490)	(1.0)	(32,240)	(8.6)	(102,840)	(33.4)	of scheme assets
Experience gains and losses on pension liabilities	23,240	5.3	120	0.0	(1,290)	(2.0)	(3,030)	(0.6)	(2,060)	(0.3)	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(80,690)	(18.5)	(37,290)	(7.3)	4,040	7.0	101,490	18.9	(23,340)	(3.9)	of scheme liabilities
	<u>21,500</u>		<u>(48,250)</u>		<u>6,980</u>		<u>66,220</u>		<u>(128,240)</u>		

Paragraph 77(o) of FRS17 (as revised), requires the assets for the current period and the previous two periods are measured at current bid price (previously valued at mid-market price). However, the Actuaries have only provided current bid price Asset valuations, for periods ending 2008 and 2007. Therefore, the 2007/08 figures have been restated. However, although not material, it has not been possible to restate the 2006/07 figures at the current bid price (require restated opening asset values for 2007). The Asset values for periods ending 2006 and 2005 are also shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised)

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.

e) Defined Contribution Schemes

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

In 2008/09 the City Council paid £7.6 Million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14% of pensionable pay. The figures for 2007/08 were £7.8M and 14.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

45. Notes to Cash Flow Statement

a) Management of Liquid Resources

The table below summarises the movement in the Councils short term investments for 2008/09.

	2008/09 £000's
Current Asset Investments	
Balance as at 01.04.08	75,313
Receipt of Accrued Interest from previous year	(1,164)
Cash Increase/(Decrease) in Short Term Investments	(50,114)
Other Non Cash changes	865
Balance as at 31.03.09	24,900

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

2007/08 £000's		2008/09 £000's
(1,334)	General Fund	(2,927)
(1,514)	HRA	721
44	Collection Fund	(1,486)
(2,804)		(3,692)
	<u>Add Back</u>	
(9,229)	Appropriations to Reserves	12,664
(8,922)	Non Cash Items	(26,526)
(826)	Provisions	(207)
(21,781)		(17,761)
	<u>Items on an Accruals Basis</u>	
(373)	Stock/WIP (decrease)/increase	(42)
4,748	Long Term Debtors (decrease)/increase	717
(824)	Short Term Debtors (decrease)/increase	3,647
(17,329)	Creditors (increase)/decrease	(676)
(35,559)		(14,115)
	<u>Items Classified in another classification in the Cash Flow Statement</u>	
4,941	Interest Received	4,258
(6,978)	Interest Paid	(7,663)
(37,596)	Net (inflow)/outflow	(17,520)

NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2007/08</u> £000's		<u>2008/09</u> £000's
(4,442)	Increase / (Decrease) in Cash	5,149
6,938	Outflow / (Inflow) from Short Term Borrowing.	(43,340)
(10,094)	Inflow from New Long Term Borrowing	57,759
867	Deferred Liability	833
<u>34,354</u>	Purchase of Current Asset Investments	<u>(50,413)</u>
27,623	Movement in Net Debt	(30,012)
<u>(124,141)</u>	Net Debt at 01.04.07	<u>(96,518)</u>
<u>(96,518)</u>	Net Debt at 31.03.08	<u>(126,530)</u>

d) Other Government Grants

<u>2007/08</u> £000's		<u>2008/09</u> £000's
2,271	Benefits Administration	2,203
119	Housing Defect Act	0
328	NNDR Collection Grant	326
77,190	Non-domestic Rate Income Pool	84,572
12,954	Revenue Support Grant	11,773
112,679	Dedicated Schools Grant	111,106
83,262	Housing Benefits	90,334
0	Area Based Grant	9,788
1,545	HRA Subsidy	0
<u>290,348</u>		<u>310,102</u>

e) Analysis of Changes in Net Debt

	<u>01.04.08</u>	<u>£000's</u> <u>Movement</u>	<u>31.03.09</u>
Bank Overdraft	(7,682)	5,212	(2,470)
Cash in Hand and Bank	222	(63)	159
Debts Due:			
Within 1 Year	(6,513)	(43,340)	(49,853)
After 1 Year	(137,038)	57,759	(79,279)
Deferred Liability	(20,820)	833	(19,987)
Current Asset Investments	75,313	(50,413)	24,900
	<u>(96,518)</u>	<u>(30,012)</u>	<u>(126,530)</u>

46. Dedicated Schools Grants

The council's expenditure on schools is funded by grant provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure

NOTES TO THE CORE FINANCIAL STATEMENTS

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. Overspends and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2008/09 are as follows:

<u>Details of the deployment of DSG receivable for 2008/09 are as follows:</u>			
	<u>Central</u> <u>Expenditure</u>	<u>Individual</u> <u>Schools</u> <u>Budget</u>	<u>Total</u>
	£'000	£'000	£'000
Final DSG for 2008/09			111,002
Brought forward from 2007/08			104
Carry forward to 2009/10 agreed in advance			0
Agreed budgeted distribution in 2008/09	13,807	97,299	111,106
Actual central expenditure	(13,671)		(13,671)
Actual ISB deployed to schools		(97,299)	(97,299)
Local authority contribution for 2008/09	0	0	0
Carry forward to 2009/10	136	0	136

47. Contributions to Other Local Authorities

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

<u>2007/08</u> £000's	<u>2008/09</u> £000's
39 Southern Seas Fisheries	40
404 Coroners Services	435
40 Flood Defence	41
483	516

48. Revenue Contribution to Deferred Assets

At the end of the PFI Schools contract, the schools will revert to Council ownership. A deferred asset is built up over the life of the contract with the expected residual value. The residual value is credited to Education's cost of service over the remaining life of the contract (£1,045k p/a) to reflect the lower unitary charge that would be payable if no residual value of the assets existed. The expected residual value of the 3 schools is £26.5 million. This is credited in equal proportions over the remaining 22 years and 5 months of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

49. Long Term Debtors

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

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

b) PFI Schools

Long Term Debtors include two balances relating to the PFI Schools contract:

- Deferred prepayments relating to the PFI Schools (£1,045k for 2008/09, £4,181k cumulative). Under the terms of the contract, the school buildings will revert to the authority's ownership at nil additional cost at the conclusion of the contract. In accordance with the SORP, the element of the annual contract payment which is deemed to relate to the acquisition of these assets has been accounted for as a prepayment, which will accumulate over the life of the contract. Assets that the Council contributed to the contract are treated as a deferred consideration which is written down to revenue over the life of the contract.
- Deferred consideration £765k. Under the PFI Schools contract, the Council donated the Sports Hall at Cantell School as part of the transaction. The benefit the Council receives from transferring this asset in the form of a lower unitary charge is required to be recognised in the accounts. The value of the Sports Hall at the start of the contract was £975k. This value is amortised to Education's cost of services over the 30 year life of the contract, (£32.5k per year) to reflect the full cost of the contract.

More information relating to the PFI contract is included in the Statement of Accounting Policies on **page 18**.

c) IT Assets transferred to Capita

A balance for Deferred Consideration (within Long Term Debtors) has been established with the Net Book Value of the assets (£3,247k). The deferred consideration (total cost including financing charges) is then written down to zero over the 10 year life of the contract with the debit entry being to the Income and Expenditure Account (£423k). This is then reversed out through the Statement of Movement on General Fund Balance. As the authority has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the 10 year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£154k). Therefore the net reduction in Long term debtors is £270k. More information relating to the contract with Capita is included in the Accounting Policies, **note 19**, on **page 19**.

d) Other

The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

Some loans are interest free where the loan has been made to an employee who has not renewed a car lease option. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

<u>31.03.08</u> £000's		<u>31.03.09</u> £000's
	Mortgages	
149	Sale of Council Houses	92
0	Housing Act Advances	13
<u>149</u>		<u>105</u>
3,901	PFI Schools	4,915
2,991	IT Assets transferred to Capita	2,721
64	Other	81
<u><u>7,105</u></u>		<u><u>7,822</u></u>

50. Deferred Consideration Written Down / Assets Transferred to Capita

Under the PFI Schools contract, the Council donated the Sports Hall at Cantell School as part of the transaction. The benefit the Council receives from transferring this asset in the form of a lower unitary charge is required to be recognised in the accounts. The value of the Sports Hall at the start of the contract was £975k. This value is amortised to Education's cost of services over the 30 year life of the contract, (£32.5k per

NOTES TO THE CORE FINANCIAL STATEMENTS

year) to reflect the full cost of the contract. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

As part of the Strategic Services Partnership contract with Capita the majority of the Council's IT assets have transferred in ownership to Capita. The benefit the Council receives from transferring these assets in the form of a lower contract charge is required to be recognised in the accounts. The value of the IT assets at the start of the contract was £3,247k. Using the PWLB 10 year rate, to estimate the total cost including financing charges of what Capita would have had to pay in cash rather than by reducing the contract payments, gives a figure of £4,237k. This value is amortised to the Income and Expenditure Account over the 10 year life of the contract to reflect the full cost of the contract (£423k p/a). To reflect the fact that the Council has effectively lent Capita the value of the IT assets, the notional interest income on the balance of the Long Term debtor is recognised in the Income & Expenditure Account (£154k in 2008/09). This gives a net charge to the I&E Account of £270k. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

51. Stocks, Stores and Work in Progress

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

31.03.08 £000's		31.03.09 £000's
	<u>General Fund</u>	
93	Engineer's Stores	100
142	Woodmill shop	118
626	Central Stores	653
68	Building Contract Services	44
68	Catering	68
120	Gas Van	70
78	Libraries - Non Book	86
85	Other	97
1,280	Total Stocks	1,236
1	Work in Progress	3
1,281		1,239

NOTES TO THE CORE FINANCIAL STATEMENTS

52. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31st March 2009.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff, which are not paid over to the Inland Revenue by the 31st March 2009.

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

<u>2007/08</u> £000's	<u>Creditors</u>	<u>2008/09</u> £000's
	<u>Government</u>	
8,334	Department of Communities & Local Government	3,921
3,288	Department for Children Schools & Families (DCSF)	111
774	Department of Health	79
4,683	HM Revenue & Customs (PAYE & National Insurance)	4,429
577	South East England Development Agency (SEEDA)	525
944	Teachers Superannuation	882
674	Other Departments	440
<u>19,274</u>		<u>10,387</u>
	<u>Taxpayers</u>	
1,628	Council Tax / Business Rates (prepayments)	1,221
<u>1,628</u>		<u>1,221</u>
	<u>Public Sector Organisations</u>	
3,360	Hampshire County Council	4,222
1,880	Hampshire County Council (Local Government Superannuation)	2,047
717	Southampton University Hosptals	1,578
666	Other Local Authorities and Public Bodies	668
<u>6,623</u>		<u>8,515</u>
	<u>General Fund - Other Creditors</u>	
217	Building Control Competition A/C	243
448	Landfill Allowance Trading Scheme (LATS)	377
3,256	CAPITA	1,364
<u>32,696</u>	Sundry Creditors	<u>42,992</u>
<u>36,617</u>		<u>44,976</u>
	<u>Housing Revenue Account - Other Creditors</u>	
2,744	Sundry Creditors	2,463
<u>2,744</u>		<u>2,463</u>
<u>66,886</u>	Total Creditors	<u>67,562</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2007/08</u> £000's	<u>Debtors</u>	<u>2008/09</u> £000's
	<u>Government</u>	
5,669	Department of Communities & Local Government	3,213
1,086	Department for Children Schools & Families (DCSF)	1,230
2,731	Department of Work and Pensions	3,088
420	Heritage Lottery Fund	0
2,708	HM Revenue & Customs (VAT)	1,830
674	Home Office	15
504	South East England Development Agency (SEEDA)	38
526	Sport England	18
122	Other Departments	427
<u>14,440</u>		<u>9,859</u>
	<u>Taxpayers</u>	
6,860	Council Tax	7,110
534	Business Rates	2,775
<u>7,394</u>		<u>9,885</u>
	<u>Public Sector Organisations</u>	
1,266	Hampshire County Council	1,497
538	Other Local Authorities and Public Bodies	355
<u>1,804</u>		<u>1,852</u>
	<u>General Fund - Other Debtors</u>	
4,521	Housing Benefit	5,109
185	CAPITA	223
248	Leasing	385
448	Landfill Allowance Trading Scheme (LATS)	377
17,815	Sundry Debtors	20,102
<u>23,217</u>		<u>26,196</u>
	<u>LESS Provision for Bad Debts</u>	
(5,830)	Taxpayers	(6,980)
(6,060)	Other	(6,685)
<u>(11,890)</u>		<u>(13,665)</u>
	<u>Housing Revenue Account - Other Debtors</u>	
4,281	Sundry Debtors	8,694
(1,947)	LESS Provision for Bad Debts	(1,875)
<u>2,334</u>		<u>6,819</u>
<u>37,299</u>	Total Debtors	<u>40,946</u>

53. Short Term Investments

The balance shown comprises investments that are of less than one year and includes accrued interest due within one year for both long and short term investments.

<u>31.03.08</u>				<u>31.03.09</u>		
<u>Principal</u>	<u>Accrued</u>		<u>Short - Term Investments</u>	<u>Principal</u>	<u>Accrued</u>	
£000's	£000's	£000's		£000's	£000's	£000's
66,225	1,131	67,356	Temporary Money Market Investments	17,400	690	18,090
7,924	33	7,957	Money Market Fund Accounts	6,635	5	6,640
0	0	0	Long term investments - interest due within 1 year	0	170	170
<u>74,149</u>	<u>1,164</u>	<u>75,313</u>		<u>24,035</u>	<u>865</u>	<u>24,900</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

54. Cash in Hand and Bank Overdraft

The balance shown comprises:

	31.03.08 £000's	31.03.09 £000's
Bank Accounts	7,682	2,470
Petty Cash	(222)	(159)
Total	7,460	2,311

Although the balance shown suggests that the bank is overdrawn by over £2,311k this reflects end of year accounting entries and was not the actual cash position. The Council's balance in the Bank at the 31 March 2009 was actually a credit of £73k.

55. Deferred Liabilities

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

	<u>31.03.08</u> £000's	<u>31.03.09</u> £000's
21,688 Balance Brought Forward		20,820
0 Principal raised in year		0
(868) Principal written down		(833)
	<u>20,820</u>	<u>19,987</u>

56. Deferred Capital Balances

This balance consist of the sale of Council Houses.

	<u>01.04.08</u>	£000's		<u>31.03.09</u>
		<u>Receipts</u> <u>in Year</u>	<u>Payments</u> <u>in Year</u>	
Sale of Council Houses	136	2,165	(2,209)	92
	<u>136</u>	<u>2,165</u>	<u>(2,209)</u>	<u>92</u>

57. Government Grants Deferred

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2007/08		2008/09	
£000's		£000's	
26,773	Balance Brought Forward	35,662	
10,353	Applied in Year	11,494	
(1,464)	Credited to I & E Account	(3,621)	
<u>35,662</u>	Balance Carried forward	<u>43,535</u>	

58. Capital Grants and Contributions Unapplied

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

2007/08		2008/09	
£000's		£000's	
13,393	Balance Brought Forward	19,259	
39,455	Amounts Received in Year	35,098	
(33,589)	Amounts Applied to Finance Capital in year	(32,466)	
<u>19,259</u>	Balance Carried forward	<u>21,891</u>	

59. Area Based Grant (ABG)

From the 2008/09 financial year, Local Area Agreement (LAA) Grant was replaced by Area Based Grant (ABG). ABG is a non-ringfenced general grant, no conditions on use is imposed as part of the grant determination ensuring full local control over how funding can be used.

This means that, unlike LAA Grant, its use is not restricted to supporting the achievement of LAA targets. Also, unlike LAA Grant, ABG is paid directly to the authority that benefits from the grant, rather than being paid to the upper-tier authority for the area in the capacity of 'accountable body' for onward distribution. ABG is a general grant, which is included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution.

The total amount of ABG received by the Council in 2008/09 was £10,678k revenue funding. All of this amount was used by the council to fund its own services.

HOUSING REVENUE ACCOUNT

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

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

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

Income and Expenditure Account

<u>2007/08</u>		<u>Notes</u>	<u>2008/09</u>	
<u>£000's</u>	<u>Income</u>		<u>£000's</u>	<u>£000's</u>
(51,904)	Dwellings Rent	1	(54,783)	
(1,441)	Non-Dwelling Rents		(1,434)	
(3,118)	Tenant Charges for Services & Facilities		(4,098)	
(1,199)	Contributions Towards Expenditure		(1,269)	
(119)	Housing Revenue Account Subsidy Receivable		0	
0	Reduced Provision for Bad or Doubtful Debts		0	
(57,781)	Total Income			(61,584)
	Expenditure			
14,365	Repairs and Maintenance		14,464	
15,673	Supervision and Management		14,882	
2,953	Rents, Rates, Taxes and Other Charges		3,923	
1,545	Negative Housing Revenue Account Subsidy Payable	8	5,608	
0	Transfer of Bad Debt Provision to General Fund		0	
800	Increased Provision for Bad or Doubtful Debt		497	
12,432	Depreciation and Impairment of Fixed Assets	7	155,723	
48	Debt Management Costs		47	
47,816	Total Expenditure			195,144
(9,965)	Net Cost of Services			133,560
410	HRA services share of Corporate & Democratic Core			348
	HRA share of other amounts included in the whole authority Net Cost of Service but not allocated to specific services			
(9,555)	Net Cost of HRA Services			133,908
0	(Gain) or loss on sale of HRA fixed assets			0
4,414	Interest payable and similar charges			3,857
(113)	Capital Receipts not matched by Disposal of Assets			(63)
(4,550)	Capital Grants & Contributions not transferred to Government Grants Deferred			(214)
(845)	Interest and Investment Income	6		(684)
734	Pensions Interest Cost & Expected Returns on Pensions Assets	12		1,691
5	PYA (Change of Accounting Policy)			
(9,910)	(Surplus) or deficit for the year on HRA Services			138,495

HOUSING REVENUE ACCOUNT

Statement of Movement on the HRA Balance

2007/08 £000's		2008/09 £000's
(9,910)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	138,495
<u>8,396</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	<u>(137,775)</u>
(1,514)	(Increase) or decrease in the Housing Revenue Account Balance	720
(1,594)	Housing Revenue Account surplus brought forward	(3,108)
<u><u>(3,108)</u></u>	Housing Revenue Account surplus carried forward	<u><u>(2,388)</u></u>

Note to Statement of Movement on the HRA Balance

£000's		£000's	£000's
	Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
113	Capital Receipts not matched by Disposal of Assets	63	
4,550	Capital Grants & Contributions not transferred to Government Grants Deferred	214	
0	Removal of HRA Effective Interest Rate Calculation	74	
	Amortisation of Item 8 Discount	(12)	
0	Impairment of Fixed Assets	(143,223)	
0	Gain or loss on sale of HRA fixed assets	0	
(3,366)	Net Charges made for retirement benefits in accordance with FRS 17	(3,837)	
(5)	PYA (Change in Accounting Policy)		
1,292			(146,721)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
(199)	Transfer to/(from) Major Repairs Reserve	(293)	
1,844	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	3,137	
2,553	Capital Expenditure funded by the HRA	11,215	
2,906	Transfer to/ (from) Direct Revenue Financing Reserve	(5,112)	
7,104			8,946
<u><u>8,396</u></u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year		<u><u>(137,775)</u></u>

HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31 March 2009, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 4.59% (31 March 2008 - 4.77%). The total arrears were £2,698K (31 March 2008 - £2,774K). Rents written off during the year amounted to £455K (last year £149K).

The main sources of rent income after allowing for voids of £624K (last year £593K) are set out in the following table:

<u>2007/08</u> £000's		<u>2008/09</u> £000's
21,562	Rent met by Tenants	23,300
<u>30,342</u>	Rent Rebates	<u>31,483</u>
<u>51,904</u>		<u>54,783</u>

2. Housing Stock

During the year 1.25% (1.34% for 2007/08) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2008/09 was £61.67 a week (£57.95 for 2007/08). The stock at the year-end was made up as follows:

<u>2007/08</u>		<u>2008/09</u>
17,312	Stock at 1st April	17,229
(77)	Less: Sales	(31)
(6)	Other/Demolitions	1
<u>17,229</u>	Stock at 31st March	<u>17,199</u>
	<u>Consisting of :</u>	
5,485	Houses	5,474
11,728	Flats	11,709
16	Bungalows	16
<u>17,229</u>		<u>17,199</u>

3. Major Repairs Reserve

<u>Total</u> <u>2007/08</u> £000's		<u>Land</u> <u>2008/09</u> £000's	<u>Dwellings</u> <u>2008/09</u> £000's	<u>Other</u> <u>2008/09</u> £000's	<u>Total</u> <u>2008/09</u> £000's
0	Opening Balance	0	0	0	0
(12,432)	Receipts in Year	0	(12,206)	(293)	(12,500)
12,432	Payments in Year	0	12,206	293	12,500
<u>0</u>	Closing Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

HOUSING REVENUE ACCOUNT

4. Capital Expenditure

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

<u>2007/08</u>		<u>Capital Spending</u>		<u>2008/09</u>	
£000's				£000's	
22,376	Housing Stock			25,440	
17	Other Property			11	
22,393	Total Capital Expenditure			25,451	
<u>Capital Expenditure Source of Finance</u>					
£000's				£000's	
1,561	Capital Receipts			320	
1,496	Supported Borrowing			1,496	
0	Unsupported Borrowing			0	
4,442	Grants			5	
12,233	Transfer from Major Repairs Reserves			12,206	
108	Contributions			209	
2,553	Direct Revenue Funding			11,215	
22,393	Total Financing			25,451	

5. Capital Receipts

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

<u>2007/08</u>		<u>2008/09</u>	
£000's		£000's	
958	Opening Balance at 1st April		70
Receipts in Year:-			
Sale of Assets			
6,138	Council Housing		2,191
606	Land, Buildings & Equipment		37
54	Repayment of Advances		44
7,756			2,342
(76)	Allowable deduction arising from Disposal		(62)
7,680			2,280
Application in Year:-			
(1,485)	Inter Portfolio Transfer		(253)
(1,561)	Financing of new HRA Capital Expenditure		(320)
(4,498)	Pooled Receipts		(1,585)
(66)	Other Adjustments		39
70	Closing Balance at 31st March		161

6. Interest Received

During 2008/09 the Housing Revenue Account received interest amounting to £684K, (2007/08 £845K). The main sources of this income are detailed in the table below.

HOUSING REVENUE ACCOUNT

<u>2007/08</u> £000's	<u>2008/09</u> £000's
11 Council House Mortgages	7
834 Interest on Other Funds & Balances	677
845	684

7. Fixed Assets

The DETR Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail on **page 12**.

The vacant possession value of Council Housing within the authority's HRA as at 1st April 2008 was £1.458 million, which is the Authority's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation. The difference between the two shows the economic cost to the Government of providing council housing at less than open market value. The value is based on stock as at the 31 March 2009.

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

	Movements in Fixed Assets During 2008/09				
	Operational Assets			Non-Operational Assets	Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Investment	
	£000	£000	£000	£000	£000
Certified Valuation at 31 March 2008	799,740	5,548	860	11,023	817,171
Accumulated depreciation and impairment	0	0	(191)	0	(191)
Net Book Value of Fixed Assets at 31st March 2008	799,740	5,548	669	11,023	816,980
Movement in year					
Additions	25,440	6		11	25,457
Disposals	(2,165)				(2,165)
Transfer					0
Revaluations	(8,058)	(302)		285	(8,075)
Depreciation	(12,206)		(192)		(12,398)
Impairments	(139,443)	(1,091)		(2,689)	(143,223)
Net Book Value of Fixed Assets at 31st March 2009	663,308	4,161	477	8,630	676,576

8. General Housing Subsidy

The Government pays a General Housing Subsidy to the Housing Revenue Account. This is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. With effect from the 1st April 2004 Rent Rebate Subsidy was removed from

HOUSING REVENUE ACCOUNT

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 2008/09 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2008/09.

<u>2007/08</u> £000's		<u>2008/09</u> £000's
119	Housing Defects Act	0
	Housing Subsidy Entitlement in Year	
31,108	Management and Maintenance	31,650
12,233	Major Repairs Allowance	12,206
5,871	Charges for Capital	5,221
0	Admissible Allowance	0
0	Anti Social Behaviour Allowance	0
1,261	Rental Constraint Allowance	0
(15)	Interest on Receipts	(10)
<u>(52,003)</u>	Guideline Rent Income	<u>(54,651)</u>
(1,545)		(5,584)
0	Previous Years Subsidy Adjustment	(24)
<u>(1,426)</u>	Total Housing Subsidy	<u>(5,608)</u>

9. Provision for Bad Debts

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

<u>2007/08</u> £000's		<u>2008/09</u> £000's
300	MRC Bad Debt Provision	374
<u>1,646</u>	Rents Bad Debt Provision	<u>1,501</u>
<u>1,946</u>		<u>1,875</u>

10. Minimum Revenue Provision (MRP)

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

11. Direct Revenue Financing Reserve

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

HOUSING REVENUE ACCOUNT

<u>2007/08</u>			<u>2008/09</u>	
<u>£000's</u>			<u>£000's</u>	
		Direct Revenue Financing Reserve		
(12,320)		Direct Revenue Financing Balance Brought Forward	(15,226)	
(5,459)		Contribution From Revenue In Year	(6,103)	
<u>2,553</u>		Applied for Capital	<u>11,215</u>	
<u>(15,226)</u>		Balance Carried Forward	<u>(10,114)</u>	

12. Pensions

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

	<u>2007/08</u>		<u>2008/09</u>	
	£000's	£000's	£000's	£000's
Local Government Pension Scheme				
Income and Expenditure Account				
<i>Net Cost of Service</i>				
Current service costs		2,644		2,075
Past service costs		722		71
<i>Net Operating Expenditure</i>				
Interest Cost	3,825		5,244	
Expected return on assets in the scheme	(3,091)		(3,553)	
PYA (Change in Accounting Policy)	<u>5</u>	739	<u>0</u>	1,691
Amounts to be met from HRA				
Movement on pensions reserve	(1,521)		(700)	
PYA (Change in Accounting Policy)	(5)	(1,526)	0	(700)
Actual amount charged against HRA				
Employer's contributions payable to scheme		<u>2,579</u>		<u>3,137</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 2009			
2007/08		Notes	2008/09
£000s			£000s
	Income		
(72,763)	Council Tax	2	(77,276)
	Transfers from the General Fund		
(14,694)	- Council Tax Benefits	3	(15,393)
0	- Transitional Relief		0
(87,457)			(92,669)
(80,233)	Income Collectable from Business Ratepayers	1	(89,677)
	Contributions towards Previous Year's (Deficit)/ Surplus		
704	- Southampton City Council		0
77	- Hampshire Police Authority		0
34	- Hampshire Fire & Rescue Service		
(166,875)	Total Income		(182,346)
	Expenditure		
	Precepts		
73,893	- Southampton City Council Precept	4	76,823
8,163	- Hampshire Police Authority Precept	4	8,866
3,651	- Hampshire Fire & Rescue Service Precept	4	3,809
85,707			89,498
	Business Rates		
79,239	- Payment to National Pool		87,753
121	- Interest on Overpayments		282
328	- Costs of Collection	5	326
79,688			88,361
	Bad and Doubtful Debts		
	Council Tax		
730	- Write Offs	6	941
255	- Provisions	6	493
985			1,434
	Business Rates		
653	- Write Offs	6	659
(109)	- Provisions	6	657
544			1,316
166,924	Total Expenditure		180,609
49	(Surplus) / Deficit For the Year		(1,737)
(588)	(Surplus) / Deficit Brought Forward		(539)
(539)	Total (Surplus) / Deficit		(2,276)

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 46.2p in the pound for 2008/09 (44.4p for 2007/08). The small business rate relief multiplier for 2008/09 is 45.8p in the pound for 2008/09 (44.1p for 2007/08). The rateable value at 31 March 2009 was £217,664k (£216,126k at 31 March 2007). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool managed by central government. The government redistributes the sums paid into the pool back to local authorities in proportion to population. Southampton's share of the pool for 2008/09, paid directly to the Income and Expenditure Account, amounted to £84,572k.

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	60	5/9	33
Band A	23,479	6/9	15,653
Band B	27,173	7/9	21,135
Band C	18,333	8/9	16,296
Band D	7,839	9/9	7,839
Band E	2,587	11/9	3,162
Band F	1,237	13/9	1,786
Band G	378	15/9	630
Band H	4	18/9	8
	<u>81,090</u>		<u>66,542</u>

Taking the total Band D equivalents of 66,542 and multiplying this by the standard council tax of £1,368.24 gives a total estimated income from taxpayers of £91,045k. 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 2008/09 was 98.3%, giving a net Council Tax Base of 65,411. Multiplying this by the standard council tax of £1,368.24, gives the total precepts on the Collection Fund of £89,498k.

3. Benefits

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

4. Precepts

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

5. Allowance for NNDR Collection

A contribution to the General Fund is made to meet the costs of collection (£326k).

THE COLLECTION FUND

6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £1,434k in 2008/09. At the 31 March 2009 the provision totalled £6,013k against a liability of £9,258k.

The contribution to the NDR Bad Debt provision is £1,316k in 2008/09. At the 31 March 2009 the provision totalled £967k against a liability of £2,807k.

7. Collection Fund Balance

The year end balance on the Collection Fund of £2,275k 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 £1,949k and shown as a revenue balance in the Balance Sheet. The remaining £326k attributable to the other preceptors is included within Creditors in the Balance Sheet.

The movement on the Collection Fund balance between 31 March 2008 and 31 March 2009 is £1,487k. This is shown in the Statement of Total Recognised Gains and Losses.

TRUST AND OTHER FUNDS

The Council acts as trustee for legacies left by inhabitants of the City and as residual trustee for the Wessex Slaughterhouse Board. As required by the Statement of Recommended Practice the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet.

Following the introduction of the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005), a separate statement of financial affairs and balance sheet relating to the trust funds are reported on **pages 77–78**.

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:

	2007/08 £000's	Receipts £000's	Payments £000's 's	2008/09 £000's
<u>Other Funds</u>				
Wessex Slaughterhouse Board	(102)	(4)	3	(103)
Criminal Injuries Compensation Board	(57)	(1)	36	(22)
Total	<u>(159)</u>	<u>(5)</u>	<u>39</u>	<u>(125)</u>

The Trust Funds are:

Chipperfield Trust – Purchase works of art.

L. C. Smith Bequests – Help maintain the Merchants Navy Memorial in Holyrood Church

Miss Orris Bequest – Purchase of pictures for the Art Gallery

Aldridge Bequest – To facilitate the access of disadvantaged pupils to personal enrichment experiences

Minor Trust Funds which consist of several funds of small value as follows

Ida Bany Bequest – Purchase books about America

Thomas Morgan Bequest – Finance a local essay competition

Ida Turnbull Bequest – Purchase of large print books made available for public use.

George Knee Fund – Provision of special annual prizes for Bitterne Park School.

De Gee – Annual treat for children of the former Hollbrook Children's home.

Dora Linton - 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 2009					
2007/08			2008/09		
Net £000's	Trust Funds Resources expended and (incoming resources)	Notes	Expenditure £000's	Income £000's	Net £000's
		4/5/7			
(11)	Chipperfield Trust		4	(8)	(4)
1	LC Smith Bequest		4	(1)	3
17	Miss Orris Bequest		4	(6)	(2)
(11)	Aldridge Bequest		11	(16)	(5)
(1)	Minor Trust Funds		2	(2)	0
	Total net incoming resources before other recognised gains and losses		25	(33)	(8)
	Unrealised (gains)/losses on investment assets	6			
(1)	Chipperfield Trust		0	(2)	(2)
8	Aldridge Bequest		25	0	25
0	Minor Trust Funds		0	0	0
7	Total Unrealised (gains)/losses on investment assets				23
	Net movement in funds				
(12)	Chipperfield Trust				(6)
1	LC Smith Bequest				3
17	Miss Orris Bequest				(2)
(3)	Aldridge Bequest				20
(1)	Minor Trust Funds				0
2	Total net movement in funds				15
	Reconciliation of funds			Net movement in funds	Total funds Carried Forward
	Total Funds brought forward				
(144)	Chipperfield Trust			(6)	(150)
(40)	LC Smith Bequest			3	(37)
(145)	Miss Orris Bequest			(2)	(147)
(361)	Aldridge Bequest			20	(341)
(40)	Minor Trust Funds			0	(40)
(730)	Total Funds carried forward			15	(715)

TRUST AND OTHER FUNDS

Balance Sheet as at 31 March 2009		
2007/08 £000's		2008/09 £000's
	Fixed Assets	
	Investments	
69	Chipperfield Trust	70
193	Aldridge Bequest	167
4	Minor Trust Funds	4
<u>266</u>	Total Fixed Assets	<u>0</u>
	Currents Assets	
	Internal Investments Accounts	
75	Chipperfield Trust	78
40	LC Smith Bequest	37
145	Miss Orris Bequest	147
168	Aldridge Bequest	172
36	Minor Trust Funds	36
<u>464</u>	Total Investment Accounts	<u>470</u>
	Debtors	
0	Chipperfield Trust	2
0	Aldridge Bequest	2
<u>0</u>	Total Debtors	<u>4</u>
<u>730</u>	Net Current Assets	<u>474</u>
<u>730</u>	Net assets	<u>474</u>
	Trust Funds	
148	Chipperfield Trust	148
(4)	Chipperfield Trust Unrealised Gains/(Losses) Account	2
40	LC Smith Bequest	37
145	Miss Orris Bequest	147
277	Aldridge Bequest	282
84	Aldridge Bequest Unrealised Gains/(Losses) Account	59
41	Minor Trust Funds	41
(1)	Minor Trust Funds Unrealised Gains/(Losses) Account	(1)
<u>730</u>		<u>715</u>

TRUST AND OTHER FUNDS ACCOUNTING POLICIES

1. Basis of accounting

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

2. Change in the basis of accounting

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

3. Changes to previous accounts

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

2007/08		<u>Analysis of Incoming Resources</u>				2008/09	Total Incoming Resources £ 000's
		Sales £ 000's	Other £ 000's	Dividends - Unit Trusts and Gilts £ 000's	Investment Interest * £ 000's		
(14)	Chipperfield Trust	0	0	(3)	(5)	(8)	
(2)	LC Smith Bequest	0	0	0	(1)	(1)	
(9)	Miss Orris Bequest	0	0	0	(6)	(6)	
(18)	Aldridge Bequest	0	0	(9)	(7)	(16)	
(2)	Minor Trust Funds	0	0	0	(2)	(2)	
(45)	Total	0	0	(12)	(21)	(33)	

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

TRUST AND OTHER FUNDS ACCOUNTING POLICIES

8. Other expenditure disclosures

Expenditure for the year was nil for the following items

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

9. Funds Structure

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

GLOSSARY

1. Accruals

The concept that income and expenditure are recognised as 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 Expenditure

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

6. Capital Receipts

The proceeds from the sale of capital assets.

7. Community Assets

Assets that the local authority intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

8. Consistency

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

9. Contingency

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

10. Council Tax

A local tax levied by Local Authorities on its citizens.

11. Creditor

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

GLOSSARY

12. Debtor

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

13. Depreciation

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

14. Fair Value

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

15. 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.

16. 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.

17. Financial Instrument

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

18. 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.

19. 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.

20. Fixed Assets

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

21. General Fund

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

22. Going Concern

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

23. Government Grants

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

24. Housing Revenue Account

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

25. Impairment

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

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

27. Long Term Investments

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

28. 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.

29. Materiality

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

30. National Non Domestic Rate

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

31. 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.

32. 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.

33. Net Expenditure

Total expenditure for a service less directly related income.

34. 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.

35. Non-Operational Assets

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

36. Operating Leases

A lease other than a finance lease.

37. Operational Assets

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

38. Post Balance Sheet Events

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

39. Revenue Expenditure Funded from Capital under Statute

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.

40. Revenue Expenditure/Income

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

41. Statement of Standard Accounting Practice (SSAP)

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

GLOSSARY

42. Stocks

Comprise the following categories:

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

43. Useful Life

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

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.