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Governance Committee

Monday, 10th June, 2019
at 5.30 pm

MEMBERS’ ROOM DOCUMENTS

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Members

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MEMBERS' ROOM DOCUMENT

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9 **DRAFT FINANCIAL STATEMENTS FOR 2018/19** (Pages 1 - 132)

To consider the report of the Interim Service Director Finance and Commercialisation (S151) providing an overview of the 2018/19 Draft Financial Statements, attached.

Friday, 31 May 2019 DIRECTOR, LEGAL AND GOVERNANCE

Agenda Item 9

2018/19
DRAFT FINANCIAL STATEMENTS

SOUTHAMPTON
CITY COUNCIL

FINANCIAL STATEMENTS

CONTENTS

Introduction to the Statement of Accounts by Councillor Chaloner, Cabinet Member for Finance and Customer Experience

Welcome to Southampton City Council's Statement of Accounts for 2018/19.

Southampton City Council has continued to work tirelessly throughout 2018/19 to bring investment to the city and improve the value for money for the services that we provide to our residents.

During 2018/19 we continued our collaborative work to enhance opportunity in the city in part through Southampton Connect. This is an independent partnership which brings together representatives across business, public, voluntary and education sectors seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton. It is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a 'city of opportunity where everyone thrives'.

Collaboration between the Council and partners is also demonstrated through the Health and Wellbeing Board, Safe Partnership (Community Safety Partnership) and the Joint Commissioning Board which brings the Council and Clinical Commissioning Group together to deliver joint health improvements through pooled funds.

2018/19 was the second year of operation of the Business Improvement District (BID), with over £1.15M (2017/18 £1M) generated to support activities to improve the marketing and experience of the city centre.

To help with our aim of strong and sustainable economic growth, digital and knowledge based businesses will shortly have an exciting new space to work in, with the completion of 'Network' on the second floor of the Marlands Shopping Centre. The contemporary open plan floorspace offers flexible new shared co-working space, giving entrepreneurs the freedom to work in a collaborative environment, which will include a welcoming reception and meeting rooms. Southampton City Council made a £1.5M capital investment in the project to make this happen.

As part of the Council's commitment to boost the local economy through developing skills, the Council secured £2M of funding to deliver a new 'Apprenticeship Hub' in the Solent Region. The scheme will raise local employer awareness of the benefits of apprenticeships in meeting their skills and business needs. The Hub will also support younger people and residents to access apprenticeships. The scheme will be delivered by the Council in tandem with partners over the next three years. The Council also secured £0.25M of funding from Visit England as part of the Discover England campaign to increase the global competitiveness of Southampton as a cruise port, maximising the economic impact of over 2 million international cruise passengers each year by encouraging them to explore the city and surrounding area.

We are working hard to transform transport in the city and published our new Local Transport Strategy 'Connected Southampton' in March 2019. The Council also launched a ten year strategy in 2017 to transform the cycling experience in the city after people told us that they wanted more cycle ways, with safer roads and less traffic. I am pleased to report that significant progress has been made on completing the Southampton Cycle Network (SCN). We've already invested £2.4M in completed projects and a further £5.4M is committed to projects that will be delivered by summer 2019. The rate of delivery has been accelerated following successful bids for national finance sources from the Clean Air Zone Early Measures and National Productivity Investment Funds.

2018/19 also saw Southampton being part of a successful City Region bid to become one of the Transforming Cities Fund (TCF) City Regions. This means we are able to receive a share of £1.28BN funding over the next five years to allow us to progress our transport plans to make Southampton a better place. This is a joint project between Southampton City Council and Hampshire County Council.

A major focus continues to be on ensuring we meet the needs of children and young people and monitoring the number of looked after children, to ensure every child gets a good start in life. Despite the increasing demand within the Education and Children Social Care service, we are continuing to create innovative and collaborative ways to prevent children coming into care and ensure that early intervention stops difficulties reaching crisis point, therefore reducing pressure on the care budget for 2019/20 onwards whilst also ensuring children are cared for within their families provided it is safe to do so.

PREFACE

The Council and its partners continue to work hard to improve educational outcomes for children and young people and GCSE results in 2018 improved, with the proportion of students receiving a grade between 9-5 in English and Maths 3% higher than the previous year. The Council has also committed to significantly increase its investment in schools in our Capital Programme.

During the financial year, work continued on the Townhill Park phase 1 and Potters Court housing developments. With a budget of £56.4M for the complete schemes, Townhill Park is expected to deliver 56 homes, whilst Potters Court is expected to deliver 84 Homes with Care and 15 general needs homes. The Homes with Care development will provide purpose built homes for adults of all ages who would benefit from being able to live independently in a supportive environment with communal and care facilities on hand. Both schemes are due for completion in the next year. In recent years local residents have had input into the plans drawn up to regenerate their neighbourhoods. With the support of Central Government funding to deliver on these plans, over the next eight years at Townhill Park there are proposals to include a further 609 new flats and houses as well as environmental improvements to Frog's Copse.

The Council's approved capital programme totals £405.70M (2018/19 to 2022/23), which represents an increase of £53.37M compared with the previous five year programme. It aims to bring jobs and investment to the city. In line with the Council's priority outcomes, additional provision has been made for:

- £88.4M for secondary schools expansion;
- £142.8m to improve the quality of homes and make them safer and more energy efficient
- £21.2M for roads programme investment, with a further £7.9m for the recently completed works to Millbrook roundabout;
- £5.6M for investment in improved IT and our Digital Strategy.

The Council's Medium Term Financial Strategy (MTFS) as approved in February 2017, introduced a different approach to financial management. Against the background of addressing continued austerity it aimed to deliver key outcomes (per the Council Strategy 2016 to 2020) within affordability and promoting maximum value for money. The authority's services continue to impact on many aspects of people's lives and it is essential the approach promotes spending our total resources of over £600M on activities with the greatest impact, with better outcomes for all residents. This has given stability to services and enabled them to focus on delivering the priority outcomes. It is intended to continue this practice going forward.

On our day to day spending on service delivery the estimated revenue budget gap is £11.6M by 2022/23. Further work is therefore already underway to close this gap.

The national issue of rising demand on Adult Social Care and Safeguarding of Children have impacted on the level of spend for these services in 2018/19 and is expected to continue to be a pressure on the Council's budget. This has been reflected in the Council's MTFS. Significant extra funds have been included in future budget plans in anticipation of this pressure. To help address this pressure the City Council has created a reserve to assist managing fluctuations in demand for social care.

Looking ahead, July 2019 will see the re-integration into the Council of a number of functions previously outsourced and operated by Capita. We will be working closely with Capita to ensure a smooth and successful transition to these services back in-house for all concerned, especially for the staff and for continuity of service for the city's residents.

Through our Green City Charter we will be working with a broad range of partners during 2019/20, including residents, businesses, community groups and other organisations, who share the same determination as the Council to ensure air is cleaner across the city as part of our aim of becoming a cleaner, green and healthy city with a thriving economy.

The Statement of Accounts this financial year have again been produced ahead of statutory requirements. This is a tremendous achievement and could not be done without considerable effort and commitment across the finance team and I would like to take this opportunity to thank all of our finance and audit staff for all their dedication. Careful stewardship of our finances enables us to make the maximum use of Council resources and deliver the quality of services that residents have come to expect.

NARRATIVE STATEMENT

Message from the Interim Service Director of Finance & Commercialisation, John Harrison

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2018 to 31 March 2019. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial positon for the year.

The Finance Service continue to have an outward focus on supporting services, with the Finance Business Partner Service aimed at providing service managers with ready access to specialist financial support. Key senior finance staff have also left the City Council recently. My predecessors Mel Creighton, who was the S151 officer during part of the financial year 2018/19 (April to January) and also Sue Cuerden (who was S151 officer during January and February 2019), both of whom took up senior posts at other councils. I was confirmed as the S151 officer at the full council meeting on 20 February 2019.

My priority has been to ensure that the Finance Service continues to provide a strong level of service and operational excellence, exemplified by yet again publishing these accounts ahead of the statutory deadlines. The advantages of delivering the statements earlier are many:

- We are able to inform stakeholders of the financial performance at the earliest opportunity;
- Staff can focus on delivering the next year's financial performance;
- Staff can assist services in identifying and delivering the future year's savings; and
- Staff are available to give financial advice and support at the earliest opportunity on ideas and initiatives that support the ongoing efficiency and effectiveness of front line services.

During 2018/19 the Council has participated in a 100% Business Rates Retention Pilot arrangement, working jointly with Portsmouth City Council and Isle of Wight Council to form the Solent Region pilot. This followed a successful bid to Government to become a pilot area, pathfinding new arrangements for the future funding of local authorities. This has brought a clear financial benefit to the authority with £3.5M from additional business rate growth being kept within the locality. In addition, the Solent Region pilot was again successful in bidding to retain pilot status for 2019/20, providing the potential of a further financial gain of around £2.0M based on the change to Government's 75% local retention level. To bid against strong competition from other areas and be successful two years running is an excellent achievement and indicates we have a solid track record of collaboration with neighbouring authorities to bring mutual benefit.

Additional funding from the business rate pilot could also be provided via access to financial stability and sustainability pots, funded by the extra retained business rates.

Looking forward into 2019/20, the Finance Service will continue to develop Finance Business Partnering alongside looking to further strengthen the longer term financial planning for the authority. We will also be introducing a significantly improved financial management system for the Authority, Business World, following major investment in project work and IT improvements to our core financial systems.

The Authority faces significant financial uncertainty with respect to its funding. Government has not pre-announced any future financial settlement for 2020/21 and beyond, nor given any indication of future resource levels for local government via a Spending Review. This, coupled with an overhaul of the business rate retention scheme for funding and a review of funding allocations via the fair funding review, both proposed to be introduced from April 2020 means the levels of support from Government, in terms of funding, are very uncertain. The Authority is in a good position to address this uncertainty via its sound financial management and planning, alongside prudent levels of reserves needed in times of uncertainty. We will be monitoring all announcements by Government with respect to its proposals and ensuring that we reply to all consultations to ensure the interests of the authority and our residents are strongly represented. There is further uncertainty over the date of departure for the UK from the European Union but we will be monitoring all developments during the year to ensure any potential financial impacts on the City Council are anticipated.

NARRATIVE STATEMENT

As highlighted by the Cabinet Member for Finance and Customer Experience we will also be welcoming back in-house to Southampton a number of major services currently run on our behalf by Capita since 2007. This includes both ‘back office’ functions such as HR and IT as well as front line services such as the Revenues and Benefits service.

We also look forward to the Chartered Institute of Public Finance and Accountancy (CIPFA) implementing their financial resilience index for local authorities and its proposed Financial Management Code, which will inform the 2020/21 budget.

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

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 115.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the council to produce group accounts. In 2018/19 there were no material transactions that require this. Note 36 on page 99 provides further information.

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the financial statements
5. Accounting issues & developments

1. KEY FACTS ABOUT SOUTHAMPTON

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

There are a number of factors which affect the Council’s services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council’s financial position in both the short and medium term:

NARRATIVE STATEMENT

Key Statistics

Population 257,305 (SAPF 2019 forecast)

Southampton covers 51.81km²

Ave House Price £215,448 (Jan 2019)

Southampton University ranked 20th 2019 League Tables

Ranked as the 3rd highest ranking city for Good Growth (2018)

Ave Gross Weekly (Full Time) Earnings £528.90 (£574.90 National Ave) 2018

5,135 (3%) Working Age Residents claiming job seekers allowance or universal credit (National Ave 2.5%) Feb 2019

107,868 Households, 51% owner occupied, 25% private rented

73.8% 16-64 Year olds in employment (75.3% National Ave) Sept 2018

6,745 Business Enterprises (2018)

43,000 Higher Education students in the city

Source includes: NOMIS – Official Labour Market Statistics, Land Registry and Hampshire County Council

- We maintain over **416** miles of highways and **49** parks
- We run **6** libraries, **3** museums and support **5** community libraries
- We provide **16,047** council houses
- We recycle, compost and reuse an estimated **26,600** tonnes of waste every year
- We processed over **2,577** planning applications (during 2018/19)
- We provide long-term support for over **2,600** adults
- We work with and support **75** schools in the city
- Nearly **7,000** children **under 5** use our city's children's centres (over 14,000 visits per year) and we look after approximately **475** children who are in our care

Southampton City Strategy 2015-25

Bearing the above in mind, the City Strategy 2015-2025 has been developed by Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

It also includes four cross cutting themes:

- Fostering City Pride and Community capacity;
- Delivering whole place thinking and innovation;

- Improving mental health; and
- Tackling poverty and inequality.

Southampton Connect works closely with the key city partnerships to deliver against the vision, priorities and themes. Partnerships include the Health and Wellbeing Board and the Safe City Partnership.

Southampton City Council Strategy 2016-2020

In September 2016, the Council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the Council's strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are:

2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

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

Political Structure

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The political structure in 2018/19 was as follows:

Labour 25
Conservative 19

Putting People First 3
Southampton Independents 1

Council Management Team

Supporting the work of the elected members is the Council's Management Team (CMT). The current makeup of the team is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2018/19.

Chief Executive – ***Sandy Hopkins***

Chief Operating Officer – ***Richard Crouch***

Interim Deputy Chief Executive – ***Mike Harris***

Service Director - Digital & Business Operations - ***James Strachan***

Service Director - Legal & Governance – ***Richard Ivory***

Service Director – HR & Organisational Development – ***Janet King***

Interim Service Director - Growth – ***Denise Edghill***

Service Director - Intelligence, Insight & Communications – ***Emma Lewis***

Service Director - Children's & Families – ***Hillary Brooks***

Service Director - Housing, Adults & Communities - ***Paul Juan***

Joint Director Public Health – ***Jason Horsley***

Service Director - Transactions and Universal Services - ***Mitch Sanders***

Service Director - Quality & Integration – ***Stephanie Ramsey***

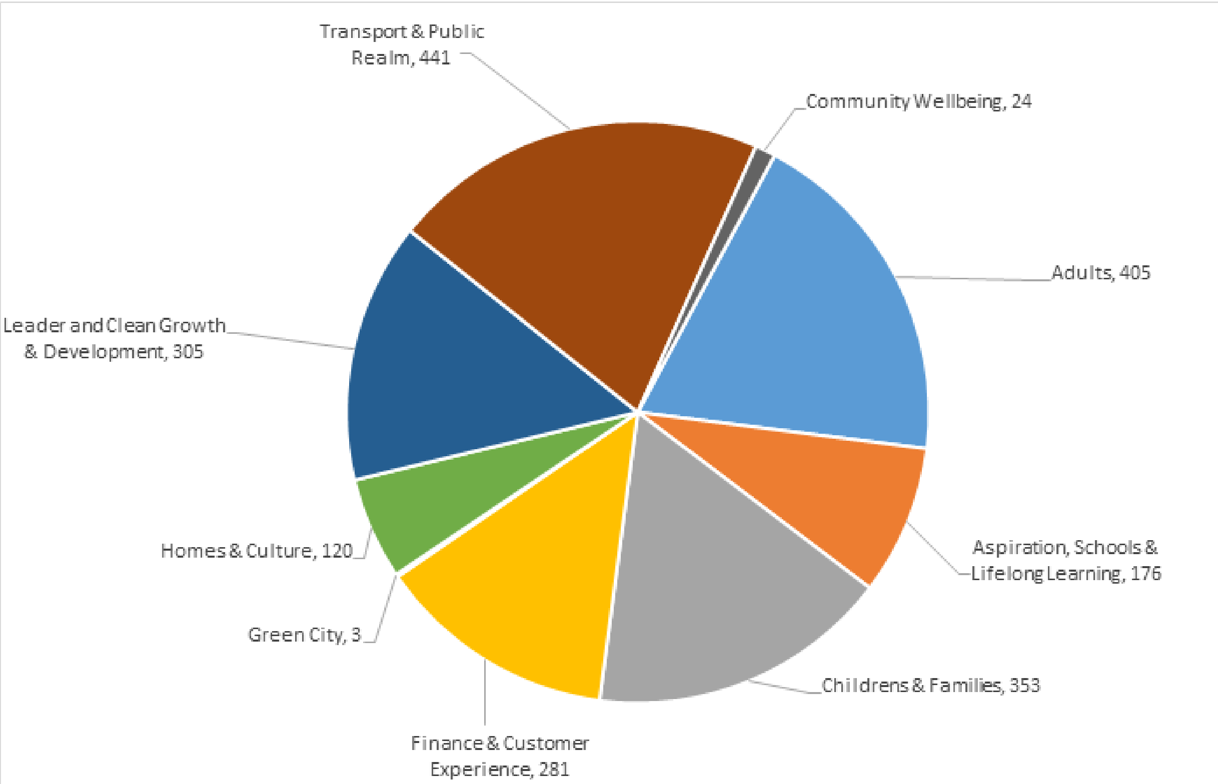
Interim Service Director - Finance & Commercialisation – ***John Harrison***

These groups work together to set out the priorities and themes contained within the Southampton City Council Plan.

Staffing

The Council employs circa 2,100 Full Time Equivalents to deliver these priorities (excluding school employees).

The following chart shows how these support the Council's services:



The Council's Performance

Indicator	16/17	17/18	18/19	DoT	Change	Preferred Direction of Travel	Stat Neighbour (ave)	Variance	Eng (ave)	Variance	Comment
Disability Living Allowance	4.0%	3.1%	2.7%	↓	-0.4%	↓	2.8%	-0.1%	2.7%	0.0%	August 2018. DLA Claimants as a percentage of total population per mid year estimate 2017
Children leaving care for permanence (Special Guardianship Order or Adoption)	50.70%	46.90%	43.60%	↓	-3.3%	↑	not known		71.50%	-27.9%	National benchmark comparison
First time entrants into Youth Justice System (per 100,000 pop of 10-17 year olds)	387	386	397	↑	11	↓	250	147	308	89	National benchmark and Statistical Neighbour benchmark comparison
Pupils in Early Years Foundation Phase achieving good level of development (%)	69.80%	70.20%	71.0%	↑	0.80%	↑	70.0%	1.0%	71.5%	-0.5%	National benchmark and Statistical Neighbour benchmark comparison
%age of 16-17 year olds NEET or whose activity is not known	7.60%	5.80%	7.0%	↑	1.20%	↓	5.50%	1.5%	6.20%	0.8%	National benchmark and Statistical Neighbour benchmark comparison
Claimant Count	1.40%	2.50%	2.90%	↑	0.40%	↓	2.60%	0.3%	2.60%	0.3%	March 2019 figures. Includes those claiming JSA and Universal Credit.
Employment and Support Allowance	4.01%	3.53%	3.00%	↓	-0.53%	↓	3.60%	-0.6%	3.20%	-0.2%	August 2018. Number of claimants of ESA by mid year estimate 2017 all people population (source Nomis)
Carers Allowance	1.16%	1.19%	1.25%	↑	0.06%	↓	1.33%	-0.1%	1.32%	-0.1%	August 2018. Claimants of carers allowance percentage of total population by mid year estimate.

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The financial year began with the setting of the budget on 21 February 2018, when a balanced budget was set that included savings of around £11.2M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

The Council incurs both revenue and capital expenditure. The revenue account (known as the General Fund (GF)) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property or other assets, build new property, make improvements and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Council's outturn position and variances from the current budget.

General Fund Revenue Account: Outturn Position 2018/19	Budget 2018/19 £M	Portfolio Outturn 2018/19 £M	Outturn Variance 2018/19 £M	
Portfolios				
Adults	66.72	71.00	4.28	A
Aspiration, Schools & Lifelong Learning	3.77	7.51	3.74	A
Childrens & Families	35.85	38.07	2.22	A
Community Wellbeing	(4.87)	(5.02)	(0.14)	F
Finance & Customer Experience	33.24	34.19	0.95	A
Green City	0.48	0.25	(0.22)	F
Homes & Culture	7.22	7.16	(0.06)	F
Leader and Clean Growth & Development	12.25	9.04	(3.22)	F
Transport & Public Realm	23.62	23.67	0.05	A
Sub total for Portfolios	**178.27**	**185.87**	**7.60**	**A**
Levies & Contributions	0.63	0.68	0.05	A
Capital Asset Management	11.43	3.46	(7.98)	F
Net Housing Benefit Payments	(0.76)	0.27	1.03	A
Transport & Public Realm Trading	(0.43)	(0.48)	(0.05)	F
Other Expenditure & Income	(3.79)	(6.79)	(3.00)	F
Net Council Expenditure	**185.36**	**183.02**	**(2.34)**	**F**
Financed By:				
Draw from Balances	(1.25)	(1.25)	0.00	-
Council Tax	(95.94)	(95.93)	0.00	-
Business Rates	(99.21)	(99.04)	0.17	A
Non-Specific Government Grants & Other Funding	11.03	8.49	(2.55)	F
Total Financing	**(185.36)**	**(187.74)**	(2.38)	**F**
Transfer to Reserves - Year End Surplus		4.72	4.72	
(Surplus)/Deficit	**(0.00)**	**0.00**	0.00	

Since the Council set its budget in February 2018 the financial outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council as reporting during the course of the year via the quarterly financial monitoring.

Where a forecast overspend was identified in-year, the relevant Service Director were tasked to develop an action plan detailing the measures and interventions to be undertaken to manage the pressure on their budget. It is expected that the requirement for action plans will continue during 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.

NARRATIVE STATEMENT

The outturn for the council was a contribution to general reserves of £4.72M.

On-going significant pressure has been experienced in relation to Health and Adult Social care due in part to increasing demand and complexity of required services and non-achievement of required savings in 2018/19 as a result.

As part of setting the budget for 2019/20 these specific pressures have been recognised and further funding has been allocated to mitigate them. Where on-going budget pressures have been identified relevant assumptions have been included within the updated Medium Term Financial Strategy (MTFS) position to reflect this.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is now included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 23 and further in Note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

	Budget 2018/19 £M	Portfolio Outturn 2018/19 £M	Outturn Variance 2018/19 £M	
Salaries & Wages	103.44	104.23	0.79	A
Premises Costs	14.17	10.82	(3.35)	F
Transportation Costs	4.26	5.26	1.00	A
Supplies & Services	60.66	73.65	12.99	A
Internal Charges	4.85	6.35	1.50	A
Other Direct Costs	252.37	260.28	7.91	A
Total Expenditure	**439.75**	**460.59**	**20.84**	A
Internal Income	(23.95)	(21.71)	2.23	A
Fees, Charges & Rents	(49.01)	(58.87)	(9.87)	F
Grants / Contributions	(188.52)	(194.13)	(5.61)	F
Total Net Expenditure	**178.27**	**185.87**	**7.60**	

This analysis excludes HRA, Housing Benefit and Transport & Public Realm Trading Areas when compared to the EFA.

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 103 to 106.

HRA Outturn Position 2018/19

The table below shows the HRA outturn position.

	Budget 2018/19 £M	Portfolio Outturn 2018/19 £M	Variance from budget £M
EXPENDITURE			
Responsive Repairs	10.04	12.96	2.92 A
Housing Investment	4.68	3.79	-0.89 F
Total Repairs	14.72	16.75	2.03 A
Rents Payable	0.10	0.08	-0.02 F
Debt Management	0.07	0.08	0.01 A
Supervision & Management	23.76	22.05	-1.71 F
Capital Financing Charges	12.06	10.83	-1.23 F
Depreciation	19.53	19.54	0.01 A
Capital Financing	3.27	4.88	1.61 A
TOTAL EXPENDITURE	73.51	74.21	0.70 A
INCOME			
Dwelling Rents	70.04	70.31	-0.27 F
Other Rents	1.16	1.25	-0.09 F
Total Rental Income	71.20	71.56	-0.36 F
Service Charge Income from tenants	1.66	1.69	-0.03 F
Service Charges income from leaseholders	0.63	0.94	-0.31 F
Interest Received	0.02	0.02	0.00 A
TOTAL INCOME	73.51	74.21	-0.70 F
SURPLUS/(DEFICIT) FOR YEAR	0.00	0.00	0.00

CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £124.86M in total for the General Fund and HRA. Final capital spend for the year was £91.39M, this was £33.46M less than the budget, including slippage/re-phasing of £26.04M. This will be reflected in the post outturn update of the overall programme.

The table below shows the capital expenditure for the year against budget for each Portfolio:

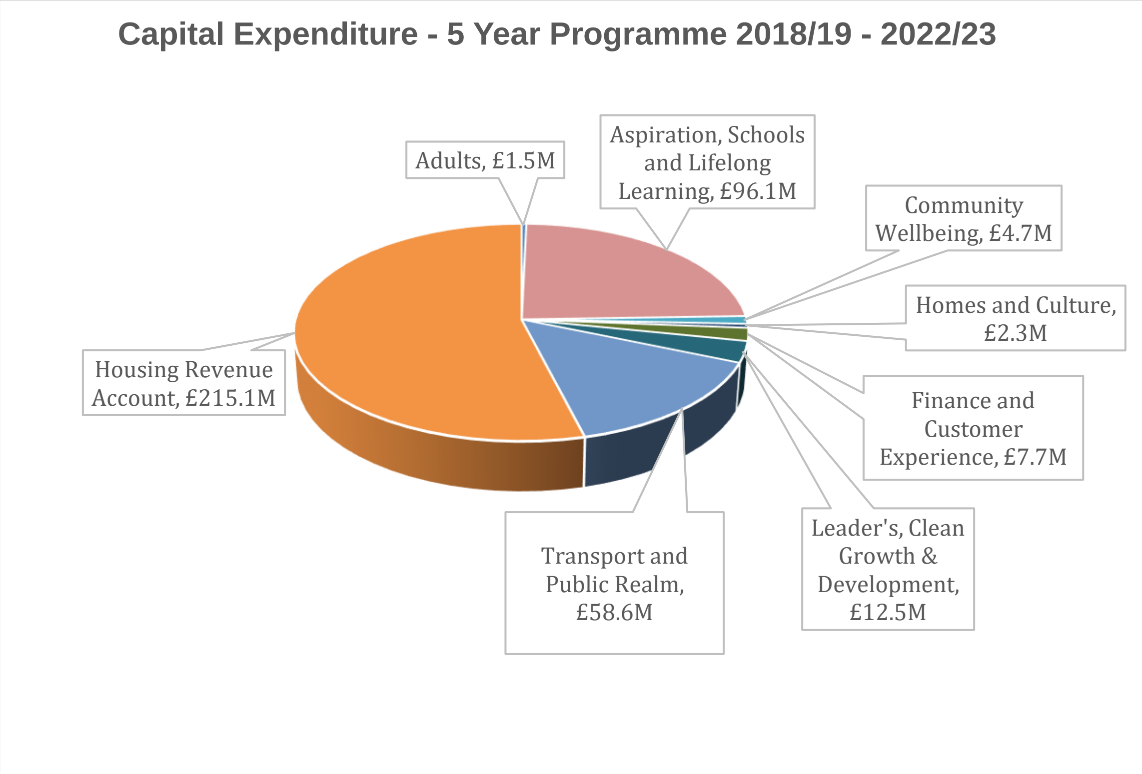
Service	Budget 2018/19 £M	Expenditure 2018/19 £M	Variance £M	
Adults	0.73	0.34	0.39	F
Aspiration, Schools and Lifelong Learning	12.92	8.68	4.24	F
Community Wellbeing	2.73	1.53	1.19	F
Finance and Customer Experience	5.74	2.34	3.39	F
Homes and Culture	0.60	0.30	0.30	F
Leader's, Clean Growth & Development	10.56	10.36	0.21	F
Transport and Public Realm	38.41	24.60	13.82	F
Total General Fund Programme	**71.70**	**48.16**	**23.54**	**F**
Housing Revenue Account	53.16	43.24	9.92	F
Total Capital Programme	**124.86**	**91.39**	**33.46**	**F**

The final spend for the year was £33.46M lower than the budget. Of this, £26.04M was due to slippage/ re-phasing on schemes, which will be spent in 2019/20 predominantly on the following schemes:

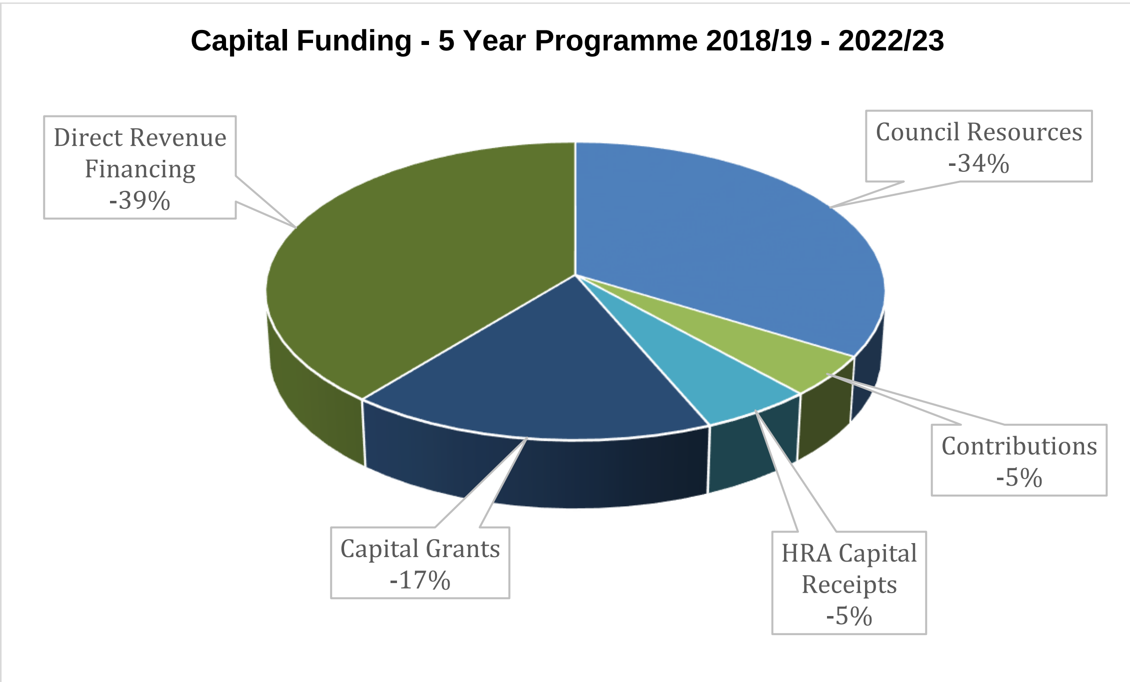
Car Parking	£0.56M
Highways	£4.88M
Integrated Transport	£5.58M
Fleet capital purchases	£0.62M
School Capital Maintenance	£1.05M
Secondary Expansion phase 1	£1.99M
Estate Improvements	£1.08M
Making Homes Energy Efficient	£0.80M
Housing Regeneration	£0.67M
IT and office accommodation	£1.10M
Transformation Capital Programme	£2.24M

5 year Capital Programme

The current approved 5 year capital programme which totals £398.55M, including approvals under delegated powers (£0.26M), and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.



Funded by:



TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Service Director for Finance and Commercialisation to make decisions on the management of the Council's debt and investment of surplus funds.

The current investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. This is especially the case for the estimated £40M that is currently available for longer term investment.

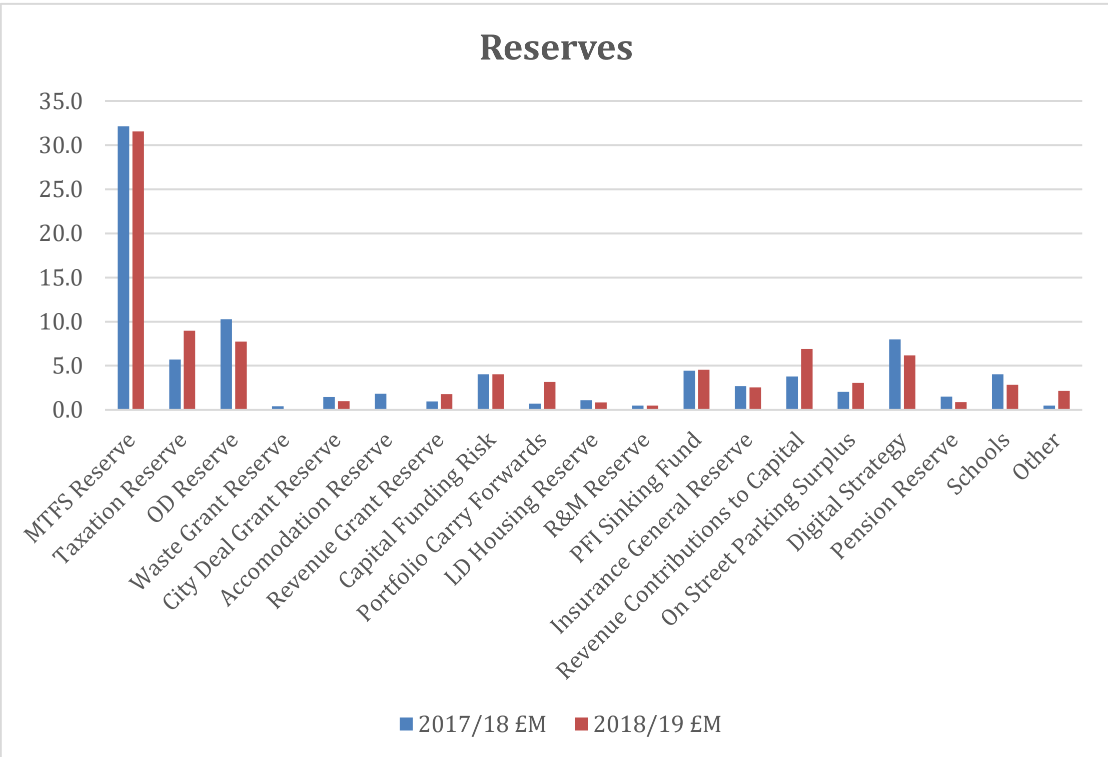
Further in support of the need to generate additional revenue income streams, additional investment has been made in the CCLA property investment fund which is generating returns of 4.4% against our nominal investment of £27M.

RESERVES AND BALANCES

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

We aim to identify, within the MTFS, the financial risks facing the Council in the medium term. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of financial resources being required to support its delivery, it continues to be important that the council maintains strong levels of reserves. In closing the accounts for 2018/19 a view has been taken on broadly maintaining reserves at existing levels. The graph below highlights the changes in the value of reserves between the 31 March 2018 and 31 March 2019.



The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2019/20. The required level of balance is determined by assessing the level of risk the council faces. This is still currently assessed at £10.0M as a minimum sum.

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way.

The Council has in place a Strategic Risk Register which captures, in one place, those significant risks that need to be managed in order to enable and support delivery of the council's key outcomes and priorities. The Strategic Risk Register is subject to regular review by the Council Management Team and is intended to ensure that key risks are not only identified and understood, but that appropriate actions and controls are in place in order that risks are managed to an acceptable level.

Each risk is 'assessed' in terms of the likelihood of occurrence and potential impact. The assessment of 'impact' reflects a blended score that considers 'service delivery', 'finance' and 'reputation' and is based on a range of scores from 'Extreme to Minor'. The assessment of likelihood, or probability, is based on a range of scores from 'Almost Certain to Very Unlikely'. Mitigating actions are identified to reduce the level of risk.

The identified strategic risks are subject to change as new risks may emerge whilst others may become less significant as mitigating actions are implemented, or external factors change the nature of the risk.

	Strategic Risk - Description	Likelihood	Impact
01	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.	Possible	Major
02	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Unlikely	Major
03	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Possible	Major
04	Failure to safeguard vulnerable adults resulting in a preventable incident	Possible	Extreme
05	Failure to safeguard children resulting in a preventable incident	Possible	Extreme
06	Failure to meet our health and safety responsibilities	Possible	Major
07	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures	Possible	Significant
08	The council is unable to respond appropriately or sufficient quickly to significant changes in service demand arising from changes in the welfare system	Possible	Significant
09	Failure to ensure an effective and sustainable adult social care system	Likely	Major
10	Failure to ensure an effective and sustainable children's social care system	Possible	Major
11	The impact of organisational change and service redesign solutions, whilst delivering savings, create other unplanned for pressures and challenges	Possible	Significant
12	Failure to improve air quality to legal levels by 2020	Unlikely	Significant
13	Service areas fail to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules'	Possible	Significant

4. AN EXPLANATION OF THE FINANCIAL STATEMENTS

The Financial Statements bring together all the financial activities of the Council for the year and its financial position as at the 31 March 2019. They detail both revenue and capital elements for both the General Fund and the HRA.

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

A glossary of key terms can be found at the end of this document.

Core Financial Statements: Page

5. ISSUES AND DEVELOPMENTS

Business Rate Pilot

During 2018/19, Southampton City Council has participated in a business rate retention scheme pilot working alongside Portsmouth City Council and the Isle of Wight as part of the Solent area pilot. The pilot means 100% of business rate growth is retained within the area. The pilot was awarded by Government following a competitive process against other authorities. The benefits of being part of the pilot scheme are twofold: (i) a direct financial benefit from being able to retain additional funding from the increased share of the growth in business rates Government allows to be retained locally rather than paid to Government (ii) indirect benefit from working in collaboration with other authorities and also with Government on funding issues.

The 2018/19 pilot has resulted in a financial benefit to Southampton of an additional £3.5M of extra funding. Agreed budget plans have factored in much of this gain as available in 2019/20 to help bridge the budget shortfall, thereby helping to avoid further budget reductions. Additional amounts have been retained collectively between the three pilot authorities and are available either as a contingency for any financial difficulty encountered, such as if business rates declined significantly, or to support economic investment projects.

The Solent business rate pilot was originally only for one year (2018/19). However, the area was again successful in a further bid to Government to retain the pilot status for 2019/20, once again in a competitive process against other local authorities. This means a further estimated financial gain to Southampton City Council of around £2.0M. This gain has been factored into our financial planning, via the MTFS, with the extra funding helping to close future budget shortfalls and alleviating some of the pressure for short term savings.

Capita Contract

Since 2007, Southampton City Council has partnered with Capita to run its Customer Services, HR Pay, Revenues & Benefits, Procurement, Health & Safety, Print, Post Room and IT services. Over the last 12 years the city and council have changed significantly, as have the needs of our customers. As a result, and as part of the council's commitment to regularly review our contracts with major suppliers, the council reviewed options relating to its partnership with Capita at the Full Council meeting on 18 July 2018. A decision was made by the authority to in-source to the authority all the functions currently performed by Capita under the contract.

Work is underway to ensure a smooth transition of these services back in-house. This is expected to take place in July 2019 and in the meantime we will be working with Capita to ensure a high standard of service is maintained for the residents of Southampton.

Progression of the Digital Strategy

Southampton City Council aims to be a fit for purpose organisation which is modern and sustainable. An increasingly central part of achieving this will be the successful application of digital capabilities and new technologies, both internally within the council and for the benefit of our customers. Our ambitions are set out in the Digital Strategy (2018-2022) which will contribute towards achieving the outcomes detailed in the Council Strategy 2016-20.

The Digital Strategy is a key strategic document that sets out a plan to:

- Make contacting the council, finding information and doing business with us easier for our customers;
- Help the council run efficiently, providing staff with the right digital tools for the job; and
- Grow Southampton's economy by showing digital leadership locally and working with others to improve public digital infrastructure.

To deliver this strategy the council is looking at all its major IT systems and associated processes and data, and as a result is:

1) Continuing to undertake the move to an Enterprise Resource Planning system – Business World (approval was given in December 2017). This supports the consolidation of a number of IT applications; rationalisation and streamline of business processes across the Council; improves payment processes for the customer; and improves management information to enable more informed decision making.
2) Progress the implementation of a new Client Case Management system (CCM). This system enables the statutory need to keep a record of social care client information and interactions such as client visits, chronologies and payment for care packages.
3) Restarted the programme to replace end of life (more than 5 years old) IT equipment used by staff in ways that enable more mobile, flexible working and support a work from anywhere culture.
4) Agreed funding from HRA capital to replace end of life equipment and replace out of date and legacy IT and digital solutions within Housing Operations.
5) Implementing Office 365 for all staff.
6) Upgrading and expanding the use of Customer Relationship Management so that contact centre and all online forms and digital content originate from one, consistent, system.

Accounting issues

The Code of Practice on Local Authority accounting for 2018/19 was revised to take into account the latest International Financial Reporting Standards (IFRS), IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* coming into effect.

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a 'forward looking' 'expected loss' model for impairment rather than the previous 'incurred loss' model.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.

Both of these changes have been considered as part of the preparation of the Council's accounts for 2018/19 and neither are considered to have a material impact on the financial statements.

Other Developments

Other notable developments include:

Community Budgets: Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a 'Performance by Results' (PBR) basis, and the mechanism is still in place to respond to opportunities.

One Public Estate: Southampton continues to be involved in the national One Public Estate Programme which is delivered in partnership with the Local Government Association and the Cabinet Office.

Housing: The Housing Revenue borrowing cap was abolished by Government, as announced in the Chancellor's budget in October 2018. This additional flexibility enables authorities to increase their house building. The implications for Southampton are being considered.

STATEMENT OF RESPONSIBILITIES

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 Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve the Statement of Accounts.

2. The Section 151 Officer's Responsibilities

The Council's S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance (CIPFA)/ The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts the S151 Officer has:

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

The S151 Officer has also:

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

3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2019 and of its income and expenditure for the year ended 31 March 2019.

Signed J **Harrison** ________________________________ Date
Section 151 Officer

4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **E Keogh** ________________________________ Date
Chair, Governance Committee

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the councils services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 47.

	2017/18				2018/19	
Net Expenditure Chargeable to the General Fund and HRA Balances	**Adjustments between the Funding and Accounting Basis (Note 8)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund and HRA Balances**	**Adjustments between the Funding and Accounting Basis (Note 8)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
72,152	2,804	74,956	Adult Care	70,995	(1,129)	69,866
6,406	5,527	11,933	Aspiration, Schools & Lifelong Learning	7,507	6,397	13,904
36,560	1,631	38,191	Childrens & Families	38,070	2,729	40,799
(4,617)	690	(3,927)	Community Wellbeing	(5,018)	117	(4,901)
27,534	(6,413)	21,121	Finance & Customer Experience	34,189	(1,385)	32,804
260	350	610	Green City	254	106	360
5,639	4,124	9,764	Homes & Culture	7,159	2,757	9,916
12,738	6,072	18,809	Leader and Clean Growth & Development	9,040	10,239	19,279
949	0	949	Transformation	0	0	0
21,259	542	21,801	Transport & Public Realm	23,673	1,960	25,633
(17,493)	(57)	(17,550)	Housing Revenue Account (HRA)	(16,575)	254	(16,321)
338	0	338	Housing Benefit	273	(488)	(215)
(188)	(1,204)	(1,392)	Transport & Public Realm Trading Areas	(475)	(876)	(1,351)
0	1,416	1,416	Other Income & Expenditure	0	1,659	1,659
			Impairments and Revaluations:			
0	19,605	19,605	Impairment on General Fund Assets	0	1,591	1,591
668	(12,098)	(11,430)	Housing Revenue Account (HRA) - impairment loss/(gain) on dwellings	992	333	1,325
162,205	**22,989**	**185,194**	**Cost of Services**	**170,084**	**24,264**	**194,348**
(173,720)	**(38,019)**	**(211,739)**	**Other Income & Expenditure**	**(171,423)**	**(23,150)**	**(194,573)**
(11,515)	**(15,030)**	**(26,545)**	**(Surplus)/Deficit**	**(1,339)**	**1,114**	**(225)**
(84,878)			**Opening General Fund Balance**	**(97,393)**		
(3,000)			**Opening HRA Balance**	**(2,000)**		
(12,515)			**Less/Plus Deficit/(Surplus) on General**	**(1,339)**		
1,000			**Less/Plus Deficit/(Surplus) on HRA**	**0**		
(97,393)			**Closing General Fund Balance**	**(98,732)**		
(2,000)			**Closing HRA Balance**	**(2,000)**		
(99,393)			**Closing General Fund & HRA Balance**	**(100,732)**		

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

2017/18					2018/19		
Expenditure	Income	Net			Expenditure	Income	Net
£000	£000	£000		Notes	£000	£000	£000
97,420	(22,464)	74,956	Adult Care		100,405	(30,539)	69,866
164,713	(152,780)	11,933	Aspiration, Schools & Lifelong Learning		163,666	(149,762)	13,904
41,581	(3,390)	38,191	Childrens & Families		46,283	(5,484)	40,799
14,248	(18,175)	(3,927)	Community Wellbeing		12,959	(17,860)	(4,901)
26,948	(5,827)	21,121	Finance & Customer Experience		37,340	(4,536)	32,804
2,525	(1,915)	610	Green City		953	(593)	360
13,243	(3,480)	9,763	Homes & Culture		15,766	(5,850)	9,916
23,792	(4,982)	18,810	Leader and Clean Growth & Development		26,050	(6,771)	19,279
949	0	949	Transformation		0	0	0
47,520	(25,719)	21,801	Transport & Public Realm		52,522	(26,889)	25,633
62,213	(79,763)	(17,550)	Housing Revenue Account (HRA)		62,509	(78,830)	(16,321)
95,795	(95,457)	338	Housing Benefit		81,043	(81,258)	(215)
(582)	(810)	(1,392)	Transport & Public Realm Trading Areas		(395)	(956)	(1,351)
1,438	(22)	1,416	Other Income & Expenditure		1,659	0	1,659
		0	**Impairments and Revaluations:**	6			
19,605	0	19,605	Impairment on General Fund Assets		1,591	0	1,591
(11,430)	0	(11,430)	Housing Revenue Account (HRA) - impairment loss/(gain) on dwellings		1,325	0	1,325
599,978	**(414,784)**	**185,194**	**Cost of Services**	8	**603,676**	**(409,328)**	**194,348**
21,254	(9,260)	11,994	Loss/ (Gain) on the disposal of Non Current Assets	12c	18,350	(9,471)	8,879
704	0	704	Contributions to Other Local Public Bodies		680	0	680
3,667	0	3,667	Contributions of Housing Capital Receipts to Government Pool		1,792	0	1,792
25,625	**(9,260)**	**16,365**	**Other Operating Expenditure**		**20,822**	**(9,471)**	**11,351**
(583)	(9,280)	(9,863)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(2,323)	(9,687)	(12,010)
13,020	0	13,020	Interest payable and similar charges	11	17,183	0	17,183
0	(1,565)	(1,565)	Interest and Investment Income	11	0	(2,114)	(2,114)
10,730	0	10,730	Net interest on the defined benefit liability (asset)	34b	11,690	0	11,690
23,167	**(10,845)**	**12,322**	**Financing, and Investment Income & Expenditure**		**26,550**	**(11,801)**	**14,749**
	(89,011)	(89,011)	Council Tax Income		0	(95,143)	(95,143)
	(53,262)	(53,262)	Business Rates		0	(104,840)	(104,840)
	(43,203)	(43,203)	General Government Grants	37c	0	12,499	12,499
	(54,950)	(54,950)	Capital Grants and Contributions	37b	0	(33,189)	(33,189)
0	**(240,426)**	**(240,426)**	**Taxation and Non-Specific Grant Income**		**0**	**(220,673)**	**(220,673)**
648,770	**(675,315)**	**(26,545)**	**Deficit/ (Surplus) on the Provision of Services**		**651,048**	**(651,273)**	**(225)**
		(6,493)	Deficit/ (Surplus) on revaluation of non current assets	22a			(11,339)
		3,071	Impairment losses/ (gains) on non-current assets charged to the revaluation reserve	22a			1,784
		(116)	Deficit/ (Surplus) on revaluation of available for sale financial assets	17d			460
		24,770	Remeasurements of the net defined benefit liability (asset)	34b			(38,270)
		21,232	**Other Comprehensive Income and Expenditure**				**(47,365)**
		(5,313)	**Total Comprehensive Income and Expenditure**				**(47,590)**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2018	**(11,316)**	**(86,077)**	**(2,000)**	**0**	**(27,514)**	**0**	**(19,371)**	**(146,278)**	**(731,320)**	**(877,598)**
Prior Year Restatement	0	0	0	0	0	0	0	0	0	0
	(11,316)	**(86,077)**	**(2,000)**	**0**	**(27,514)**	**0**	**(19,371)**	**(146,278)**	**(731,320)**	**(877,598)**
Movement in Reserves during 2018/19										
Total Comprehensive Income and Expenditure	12,631		(12,856)					**(225)**	(47,365)	**(47,590)**
Adjustments between accounting basis and funding basis under regulations (note 10)	(13,970)		12,856		3,200		(9,859)	**(7,773)**	7,773	**0**
Transfers to / (from) earmarked reserves (note 9)	2,589	(2,589)						**0**		**0**
(Increase) / Decrease in Year	**1,250**	**(2,589)**	**0**	**0**	**3,200**	**0**	**(9,859)**	**(7,998)**	**(39,592)**	**(47,590)**
Balance at 31 March 2019	**(10,066)**	**(88,666)**	**(2,000)**	**0**	**(24,314)**	**0**	**(29,230)**	**(154,276)**	**(770,912)**	**(925,188)**

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2017	**(11,316)**	**(73,562)**	**(3,000)**		**(27,817)**	**0**	**(11,828)**	**(127,523)**	**(744,762)**	**(872,285)**
Movement in Reserves during 2017/18										
Total Comprehensive Income and Expenditure	(91)		(26,454)					**(26,545)**	21,232	**(5,313)**
Adjustments between accounting basis and funding basis under regulations (note 10)	(12,424)		27,454		303		(7,543)	**7,790**	(7,790)	**0**
Transfers to / (from) earmarked reserves (note 9)	12,515	(12,515)						**0**	0	**0**
(Increase) / Decrease in Year	**0**	**(12,515)**	**1,000**	**0**	**303**	**0**	**(7,543)**	**(18,755)**	**13,442**	**(5,313)**
Balance at 31 March 2018	**(11,316)**	**(86,077)**	**(2,000)**	**0**	**(27,514)**	**0**	**(19,371)**	**(146,278)**	**(731,320)**	**(877,598)**

THE FINANCIAL STATEMENTS

Balance Sheet

31 March 2018 £000		Notes	31 March 2019 £000
1,352,620	Property, Plant & Equipment	12	1,376,504
190,249	Heritage Assets	13	190,249
125,067	Investment Properties	14	134,948
5,553	Intangible Assets	15	6,711
34,939	Long Term Investments	17b	30,511
51	Long Term Debtors		28
1,708,479	**Non Current Assets**		**1,738,951**
13,799	Short Term Investments	17b	14,065
0	Assets held for Sale	16	0
861	Stock (Inventories)		889
49,083	Short Term Debtors	18	37,815
25,567	Cash & Cash Equivalents	19	26,146
89,310	**Current Assets**		**78,915**
(391)	Cash & Cash Equivalents	19	(3,367)
(364)	Deferred Liabilities	38	(364)
(55,404)	Short Term Borrowing	17b	(87,325)
(91,543)	Short Term Creditors	20	(79,375)
(7,263)	Provisions	21	(7,780)
(154,965)	**Current Liabilities**		**(178,211)**
(56,878)	Long Term Creditors	17b	(54,004)
(5,317)	Provisions	21	(11,677)
(197,344)	Long Term Borrowing	17b	(160,875)
	Other Long Term Liabilities		
(14,189)	- Deferred Liabilities	38	(13,826)
(8)	- Deferred Capital Balances		0
(27,200)	- Cap. Grants & Conts Receipts in Advance	37a	(29,245)
(464,290)	- Pension Fund Liability	34c	(444,840)
(765,226)	**Long Term Liabilities**		**(714,467)**
877,598	**Net Assets**		**925,188**
	Useable Reserves		
(27,514)	Useable Capital Receipts Reserve	10	(24,314)
(19,371)	Cap. Grants & Conts Unapplied	10	(29,230)
(86,077)	Earmarked Revenue Reserves	9	(88,666)
(11,316)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,000)
(146,278)			**(154,276)**
	Unuseable Reserves		
(333,578)	Revaluation Reserves	22a	(336,271)
(491)	Available-for-Sale Financial Instruments Reserve		0
0	Pooled Fund Adjustment Account		(451)
(860,007)	Capital Adjustment Account	22b	(875,433)
253	Financial Instruments Adjustment Account		189
464,290	Pension Reserve	22c	444,840
(3,786)	Collection Fund Adjustment Account	22d	(5,516)
1,999	Accumulated Absences Account	22e	1,730
(731,320)			**(770,912)**
(877,598)	**Total Reserves**		**(925,188)**

Cash Flow Statement

2017/18 £000		Notes	2018/19 £000
26,545	Net surplus or (deficit) on the provision of services		(225)
92,279	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	93,693
(37,218)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(45,266)
81,606	**Net Cash Flows From Operating Activities**		**48,202**
(63,767)	Net Cash flows from Investing Activities	23 c)	(31,234)
(11,510)	Net Cash flows from Financing Activities	23 d)	(19,365)
6,329	**Net Increase / (Decrease) in Cash and Cash Equivalents**		**(2,397)**
18,847	Cash and cash equivalents at the beginning of the reporting period	23 e)	25,176
25,176	**Cash and Cash Equivalents at the End of the Reporting Period**	23 e)	**22,779**

NOTES TO THE CORE FINANCIAL STATEMENTS

Index of Notes to the Core Financial Statements

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

These Financial Statements summarise the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

b) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council has adopted IFRS 15 *Revenue from contracts with customers* in accordance with the Code, however this has no material impact on the financial statements.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or change in value.

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

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

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

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

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

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

e) Charges to Revenue for Non-current Assets

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

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

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

f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

g) Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

Local Government Pension Scheme

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

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

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

Service Cost comprising:

- *<u>Current Service Cost</u>* – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked

- *Past Service Cost* – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement; and
- *Net Interest on the Net Defined Benefit Liability (Asset)* – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- *Return on Planned Assets* – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- *Actuarial Gains and Losses* – Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- *Contributions Paid to Hampshire County Council Pension Fund* – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Teachers' Pension Scheme

Liabilities for the Teachers' scheme benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

h) Events after the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

i) Financial instruments

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council for 2018/19.

Financial Assets Measured at Amortised Cost

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

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

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

j) Government Grants and Other Contributions

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

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

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

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

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

Business Improvement District (BID)

The “Go Southampton” BID is a 5-year scheme that commenced in April 2017 and applies across the City Centre. The scheme is funded by an annual levy paid by around 600 non-domestic ratepayers in that area. The Council acts as agent under the scheme.

Community Infrastructure Levy (CIL)

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

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

k) Heritage Assets

The Council’s Heritage Assets are mainly held in the Council’s museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

Heritage Assets on the Balance Sheet

- Works of Art – the Art Collection, which includes paintings (both oil and watercolour), sketches, and sculptures, is 'designated' (i.e. officially recognised as significant) and numbers approximately 3,500 items, most of which have been acquired through donations.
- The Collection has been brought onto the Balance Sheet based on Insurance Values.
- Ancient Monuments – the Council has some Ancient Monuments including:
  - The Bargate; and
  - Town Walls and various Vaults.

The Council's Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such "site archives" have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and
- Local and Maritime Collections – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

l) Interests in Companies and Other Entities

The Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures. Therefore there is no requirement to produce group accounts.

Non-material interests in companies and other entities are recorded as financial assets at cost less any impairment.

m) Investment Property

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

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

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

n) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

o) Leases

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

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

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

The Council as Lessee

The Council does not have any material finance or operating leases, where it is the lessee.

The Council as Lessor

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

p) Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

q) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and

Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital receipts Reserve, and can then only be used for new capital investment (or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

r) Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

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

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a Note to the Financial Statements.

Contingent Assets

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

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

t) Reserves

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

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

u) Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

v) Value Added Tax (VAT)

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its ‘Section 33 status’ within the VAT Act 1994 – is able to recover all VAT paid.

w) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

i) in the principal market for the asset or liability; or

ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

x) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

y) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2019/20 Code. New standards introduced in the 2019/20 Code that apply from 1 April 2019 are:

- amendments to IAS 40 *Investment Property:* Transfers of Investment Property
- *Annual Improvements to IFRS Standards 2014-2016 Cycle*

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation.

The amendment to IAS 40 *Investment Property* provides clarification on transfers to or from the investment property classification.

The amendments to IFRS 9 allow financial assets with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income, and confirms that most modifications of financial liabilities will result in immediate recognition of a gain or loss.

None of these amendments or annual improvements is considered to have a material impact on the financial statements.

3. Critical Judgements in Applying Accounting Policies

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

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

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools in line with the provisions of the Code, and they are recognised on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- Free Schools

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school's governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools' governing body. The value of these schools is not included in the Council's Balance Sheet. VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

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

The table below illustrates the number and type of schools:

Status as at 31 March 2019	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	10	4	2	**27**
Catholic Voluntary Aided Schools			2	1		**3**
Church of England Voluntary Aided Schools			1			**1**
Church of England Voluntary Controlled Schools			3			**3**
Community Schools	3	3	13	4	4	**27**
Foundation Trust	2		7	3	1	**13**
Free Schools					1	**1**
Grand Total	**11**	**8**	**36**	**12**	**8**	**75**

- **Accounting for Schools - Transfers to Academy Status –** When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration.
- **Lease Classifications –** The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.
- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss. Further information is provided in Note 17.
- **Contractual Arrangements –** The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Interests in Other Entities –** The Council has assessed that an interest in another entity falls within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However the Council's interest is not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.7M if the useful lives were reduced by one year.
Arrears	At 31 March 2019, the Council had a balance of trade debtors of £23.1M. The current level of impairment allowance (Bad Debt Provision) based on previous experience and current and forecast economic conditions, is £5.0M, which represents 22% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 40% of the balance, it would require an additional £4.3M to set aside as an allowance.
NDR Appeals Provision	Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2019. The estimate is a percentage of the gross rates yield after reliefs, based on national assumptions about refund levels and prior years' refund levels, and a review of the VOA list of appeals outstanding and projected appeals.	An increase or reduction of the appeals provision estimate of 1.0%, would increase/(reduce) the year end NDR appeals provision by £0.2M and (£0.2M) respectively.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2019 and the projected service cost for the year ending 31 March 2019 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).

Funded LGPS Benefits Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,260.41	1,309.72
% change of present value of total obligation	-1.9%	1.9%
Projected service cost (£M's)	37.55	39.80
Approximate % change in projected service cost	-2.9%	2.9%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,289.56	1,280.14
% change of present value of total obligation	0.4%	-0.4%
Projected service cost (£M's)	38.66	38.66
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,304.95	1,265.05
% change of present value of total obligation	1.6%	-1.5%
Projected service cost (£M's)	39.80	37.55
Approximate % change in projected service cost	2.9%	-2.9%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,325.61	1,244.34
% change of present value of total obligation	3.2%	-3.2%
Projected service cost (£M's)	40.12	37.21
Approximate % change in projected service cost	3.8%	-3.8%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement is based on the Cabinet portfolios in place from September 2018. Prior year comparatives have been updated to reflect the new structure.

The Council has identified that in the analysis of income and expenditure by nature, employee benefit expenses relating to the Housing Revenue Account were previously included as other service expenses. In order to correct this error the Council has restated the prior year information for 2017/18 in Note 8b), increasing employee benefit expenses by £20.1M and reducing other service expenses by the same amount.

As this information is for disclosure purpose only, it has not been necessary to adjust the financial statements.

The Council has corrected an error in the classification of creditors between local authorities, NHS bodies and other entities and individuals for 2017/18 in Note 20 Creditors. There is no change to the total creditors balance. There are consequential amendments to the amounts owed to and by the Council shown in the Related Parties disclosure Note 29.

No other prior period adjustments have been made.

6. Impairments and Revaluations

Revaluation and Impairment of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) and impairments of General Fund and HRA properties separately. These material items are disclosed separately within the CIES to avoid distortion of comparisons between years.

7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 on the 15 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

Service lines have been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure –** adjusts for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure –** the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services -** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure -** the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** – add in expenditure for staff holiday entitlement, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure
- **For Financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For Taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Adjustments between Funding and Accounting Basis 2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Adult Care	232	2,289	(3,650)	(1,129)
Aspiration, Schools & Lifelong Learning	8,733	764	(3,100)	6,397
Childrens & Families	8	2,153	568	2,729
Community Wellbeing	76	114	(73)	117
Finance & Customer Experience	771	(4,042)	1,886	(1,385)
Green City	137	20	(51)	106
Homes & Culture	3,332	616	(1,191)	2,757
Leader and Clean Growth & Development	2,999	2,176	5,064	10,239
Transformation	0	0	0	0
Transport & Public Realm	6,402	2,139	(6,581)	1,960
Housing Revenue Account (HRA)	0	772	(518)	254
Housing Benefit	0	0	(488)	(488)
Transport & Public Realm Trading Areas	(303)	129	(702)	(876)
Other Income & Expenditure	0	0	1,659	1,659
Impairments and Revaluations				
Impairment on General Fund Assets	1,591	0	0	1,591
Housing Revenue Account (HRA) - impairment loss/(gain) on dwellings	333	0	0	333
Cost of Services	**24,311**	**7,130**	**(7,177)**	**24,264**
Other Income and Expenditure from the Expenditure and Funding Analysis	**(19,451)**	**11,690**	**(15,389)**	(23,150)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	**4,860**	**18,820**	**(22,566)**	**1,114**

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000		£000
Adult Care	216	1,469	1,119	2,804
Aspiration, Schools & Lifelong Learning	7,553	524	(2,550)	5,527
Childrens & Families	122	1,337	172	1,631
Community Wellbeing	79	63	548	690
Finance & Customer Experience	468	(3,234)	(3,647)	(6,413)
Green City	355	11	(16)	350
Homes & Culture	3,304	407	413	4,124
Leader and Clean Growth & Development	1,495	1,331	3,246	6,072
Transformation	0	0	0	0
Transport & Public Realm	6,395	1,377	(7,230)	542
Housing Revenue Account (HRA)	0	461	(518)	(57)
Housing Benefit	0	0	0	0
Transport & Public Realm Trading Areas	156	84	(1,444)	(1,204)
Other Income & Expenditure	0	0	1,416	1,416
Impairments and Revaluations				0
Past Service Pension Costs	0	0	0	0
Impairment on General Fund Assets	19,605	0	0	19,605
Housing Revenue Account (HRA) - impairment loss/(gain) on dwellings	(12,098)	0	0	(12,098)
Cost of Services	**27,650**	**3,830**	**(8,491)**	**22,989**
Other Income and Expenditure form the Expenditure and Funding Analysis	**(34,720)**	**10,730**	**(14,029)**	(38,019)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	**(7,070)**	**14,560**	**(22,520)**	**(15,030)**

b) Analysis of income and expenditure by nature

Analysis of income and expenditure by nature

2017/18 £000		2018/19 £000
	Income	
(118,138)	Revenue from contracts with service recipients	(122,766)
(381,813)	Government grants and contributions	(296,485)
(12,986)	Other service income	(10,767)
(9,280)	Income in relation to investment properties	(9,687)
(1,565)	Interest and investment income	(2,114)
(142,273)	Income from council tax and non-domestic rates	(199,983)
(9,260)	Proceeds from the disposal of non-current assets	(9,471)
(675,315)	**Total Income**	**(651,273)**
	Expenditure	
216,185	Employee benefits expenses	225,762
334,978	Other service expenses	333,839
48,936	Depreciation, amortisation, impairments and revaluations	42,431
13,020	Interest payable and similar charges	17,183
10,730	Net interest expense on the pension defined liability	11,690
3,667	Payments to Housing Capital Receipts Pool	1,792
21,254	Costs from the disposal of non-current assets	18,351
648,770	**Total Expenditure**	**651,048**
(26,545)	**Surplus (-) or Deficit (+) on the Provision of Services**	**(225)**

c) Analysis of service income

Analysis of Service Income 2018/19	Government Grants and Contributions £000	Revenue from Contracts with Service Recipients £000	Other Service Income £000	Total Service Income £000
Adult Care	(17,974)	(12,565)	0	(30,539)
Aspiration, Schools & Lifelong Learning	(147,167)	(2,586)	(9)	(149,762)
Childrens & Families	(2,103)	(3,339)	(42)	(5,484)
Community Wellbeing	(17,655)	(104)	(101)	(17,860)
Finance & Customer Experience	(2,484)	(1,044)	(1,008)	(4,536)
Green City	(445)	(148)	0	(593)
Homes & Culture	(3,728)	(1,062)	(1,060)	(5,850)
Leader and Clean Growth & Development	(1,170)	(3,961)	(1,640)	(6,771)
Transformation	0	0	0	0
Transport & Public Realm	(3,994)	(19,048)	(3,847)	(26,889)
Housing Revenue Account (HRA)	0	(77,957)	(873)	(78,830)
Housing Benefit	(79,075)	0	(2,183)	(81,258)
Transport & Public Realm Trading Areas	0	(953)	(3)	(956)
Other Income & Expenditure (NCoS)	0	0	0	0
	(275,795)	**(122,767)**	**(10,766)**	**(409,328)**

Analysis of Service Income 2017/18	Government Grants and Contributions £000	Revenue from Contracts with Service Recipients £000	Other Service Income £000	Total Service Income £000
Adult Care	(12,464)	(9,916)	(84)	(22,464)
Aspiration, Schools & Lifelong Learning	(148,556)	(2,582)	(1,642)	(152,780)
Childrens & Families	(2,215)	(1,208)	33	(3,390)
Community Wellbeing	(17,853)	(218)	(104)	(18,175)
Finance & Customer Experience	(2,033)	(1,176)	(2,618)	(5,827)
Green City	(579)	(191)	(1,145)	(1,915)
Homes & Culture	(719)	(2,220)	(541)	(3,480)
Leader and Clean Growth & Development	(449)	(3,176)	(1,357)	(4,982)
Transformation	0	0	0	0
Transport & Public Realm	(4,302)	(17,673)	(3,744)	(25,719)
Housing Revenue Account (HRA)	0	(78,946)	(817)	(79,763)
Housing Benefit	(91,495)	0	(3,962)	(95,457)
Transport & Public Realm Trading Areas	0	(810)	0	(810)
Other Income & Expenditure (NCoS)	0	(22)	0	(22)
	(280,665)	**(118,138)**	**(15,981)**	**(414,784)**

9. Transfers (to) / from Earmarked Reserves

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

	Balance 31 March 2018	Net Transfers In 2018/19	Net Transfers Out 2018/19	Balance 31 March 2019
Earmarked Reserves	£000	£000	£000	£000
General Fund				
PFI Sinking Fund	(4,430)	(119)		(4,549)
Insurance Reserve	(2,690)		149	(2,541)
On Street Parking	(2,051)	(991)		(3,042)
Digital Strategy Reserve	(7,991)		1,836	(6,155)
General Fund Contributions to Capital	(3,801)	(3,095)		(6,896)
Medium Term Financial Risk Reserve	(32,134)		575	(31,559)
Taxation Reserve	(5,700)	(3,280)		(8,980)
Organisational Design Reserve	(10,263)		2,509	(7,754)
Revenue Grant Reserve - Waste Services	(413)		413	0
Revenue Grant Reserve - City Deal	(1,467)		474	(993)
Accommodation Reserve	(1,815)		1,815	0
Revenue Grant Reserve - General	(965)	(813)		(1,778)
Capital Funding Risk Reserve	(4,031)			(4,031)
Other Reserves	(4,284)	(3,249)		(7,533)
	(82,035)	**(11,547)**	**7,771**	**(85,811)**
Schools				
School Balances	(4,042)		1,187	(2,855)
	(86,077)	**(11,547)**	**8,958**	**(88,666)**

The purpose of the main reserves are noted below:

PFI Sinking Fund

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

Insurance Reserve

This reserve holds the monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

On Street Parking Reserve

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

Digital Strategy Reserve

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this activity.

General Funds Contribution to Capital

This reserve holds monies to finance the capital programme.

Medium term financial risk reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are currently in the funding system, demand pressures and the potential for savings to be delayed as the Council goes through a period of major change, monies have been set aside to mitigate these risks on a non-recurrent basis.

Taxation Reserve

Due to the volatile nature of business rates, the predicted recession in 2019/20 and the potential move to 75% Business Rate Retention by 2019/20, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact.

Organisational Design Reserve

The reserve holds monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes for the period of the MTFS.

Revenue Grant Reserve – Waste Services

The reserve holds the balance of a central government grant received by the Council to enable weekly bin collections. The grant funding was received in advance and has been released to the general fund revenue account.

Revenue Grant Reserve – City Deal

City Deal funding of £3.6M was received in 2013/14 with two programmes being developed, one for adults and one for young people. SCC is the lead accountable body for the City Deal and administers the fund on behalf of the Council and its partners. The funding is held in a reserve and will be released as the programmes are developed and implemented.

Accommodation Reserve

Monies put aside to meet the implementation cost of the Councils Accommodation Strategy, and residual further accommodation changes required as the Council consolidates the number of administrative buildings that it uses in the provision of council services. The monies have been transferred into the General Fund Contributions to Capital Reserve.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years.

Capital Funding Risk Reserve

The Council now has a number of options available for the use of capital receipts to meet the cost of both revenue and capital projects. Monies have been put aside to meet the potential shortfall in or timing of receipt of capital funding to mitigate the impact on the general fund revenue account.

10. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2018/19	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,215)							**(1,215)**	**1,215**	**0**
Depreciation and revaluation of Non Current Assets	(24,338)		(20,864)					**(45,202)**	**45,202**	**0**
Movement on Market Value of Investment Properties	3,916		68					**3,984**	**(3,984)**	**0**
Capital Grants and Contributions Applied	22,734		3,058					**25,792**	**(25,792)**	**0**
Capital Grants and Contributions Unapplied	9,859						(9,859)	**0**	**0**	**0**
Revenue Expenditure Funded from Capital Under Statute	(5,206)							**(5,206)**	**5,206**	**0**
Short-term Accumulating Compensated Absences	269							**269**	**(269)**	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	496							**496**	**(496)**	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(43,444)		(5,276)					**(48,720)**	**48,720**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	26,662		3,238					**29,900**	**(29,900)**	**0**
Statutory Provision for the Financing of Capital Investment	7,421							**7,421**	**(7,421)**	**0**
Voluntary Provision for the Financing of Capital Investment			5,502					**5,502**	**(5,502)**	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,792)				1,792			**0**	**0**	**0**
Capital expenditure charged in-year to the GF and HRA Balances	545		4,876					**5,421**	**(5,421)**	**0**
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	1,730							**1,730**	**(1,730)**	**0**
Transfers to/(from Major Repairs Reserves			19,539			(19,539)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						19,539		**19,539**	**(19,539)**	**0**
Amortisation of Item 8 Discount			(12)					**(12)**	**12**	**0**
Capital Receipts in Year	1,836		7,635		(9,471)			**0**	**0**	**0**
Non-current Asset Disposals	(13,443)		(4,908)					**(18,351)**	**18,351**	**0**
Capital Receipts Financing of New Capital Expenditure					10,879			**10,879**	**(10,879)**	**0**
	(13,970)	**0**	**12,856**	**0**	**3,200**	**0**	**(9,859)**	**(7,773)**	**7,773**	**0**

2017/18	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,181)							**(1,181)**	**1,181**	**0**
Depreciation (and amounts equal to) and Impairment of Non Current Assets	(42,328)		(7,834)					**(50,162)**	**50,162**	**0**
Movement on Market Value of Investment Properties	2,249		159					**2,408**	**(2,408)**	**0**
Capital Grants and Contributions Applied	19,314		943					**20,257**	**(20,257)**	**0**
Capital Grants and Contributions Unapplied	7,543						(7,543)	**0**	**0**	**0**
Donated assets	30,144							**30,144**	**(30,144)**	**0**
Revenue Expenditure Funded from Capital Under Statute	(3,426)							**(3,426)**	**3,426**	**0**
Short-term Accumulating Compensated Absences Account	53							**53**	**(53)**	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs	59							**59**	**(59)**	**0**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(34,334)		(4,696)					**(39,030)**	**39,030**	**0**
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	21,526		2,944					**24,470**	**(24,470)**	**0**
Statutory Provision for the Financing of Capital Investment	5,572							**5,572**	**(5,572)**	**0**
Voluntary Provision for the Financing of Capital Investment			5,511					**5,511**	**(5,511)**	**0**
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(3,667)				3,667			**0**	**0**	**0**
Capital expenditure charged in-year to the General Fund Balance	4,125		7,635					**11,760**	**(11,760)**	**0**
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income	(2,538)							**(2,538)**	**2,538**	**0**
Transfers to/(from) Major Repairs Reserve			19,264			(19,264)		**0**	**0**	**0**
Financing of HRA Assets (Major Repairs Reserve)						19,264		**19,264**	**(19,264)**	**0**
Amortisation of Item 8 Discount			(13)					**(13)**	**13**	**0**
Net (loss) / gain on sale of Fxed Assets								**0**	**0**	**0**
Capital Receipts in Year	317		8,943		(9,260)			**0**	**0**	**0**
Non-current Asset Disposals	(15,852)		(5,402)					**(21,254)**	**21,254**	**0**
Capital Receipts Financing of New Capital Expenditure					5,896			**5,896**	**(5,896)**	**0**
	(12,424)	**0**	**27,454**	**0**	**303**	**0**	**(7,543)**	**7,790**	**(7,790)**	**0**

11. Interest Payable and Receivable

Interest Payable and Similar Charges

2017/18 £000		2018/19 £000
7,557	Interest on External Loans	7,383
4,884	PFI Schemes	6,708
401	Payments to HCC in respect of Transferred Debt	375
178	Other	117
	Movement of impairment allowance & debt write-offs	2,600
13,020		**17,183**

Interest and Investment Income

2017/18 £000		2018/19 £000
(1,551)	Investments	(1,674)
(10)	HRA Cash Balances	(19)
	Gain on Financial Instruments	(421)
(4)	Other	
(1,565)		**(2,114)**

12. Property Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,377M (2017/18 £1,353M), an increase of £24M (2017/18 £21.2M). The basis of valuation is explained in more detail in Note 1q) (Accounting Policies). The values are shown as at 31 March 2019.

a) Depreciation

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

- Council Dwellings – based on useful lives on a componentised basis.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 40 years.

b) Revaluations

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

The movement in PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements.

c) Disposals

For 2018/19 there was a £8.9M loss (2017/18 - £12M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, of which £2.8M (2017/18 - £3.3M) relates to the Housing Revenue Account.

d) Fair Value

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

Movement in Property, Plant & Equipment (PPE) 2018/19

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2018	670,605	650,009	53,521	228,402	3,646	3,031	11,209	**1,620,423**	75,553
Additions	29,074	5,219	1,429	23,161	0	0	17,817	**76,700**	
Donations					0	0	0	**0**	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		9,555	0	0	0	0	0	**9,555**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(21,894)	(3,518)	0	0	251	6	0	**(25,155)**	1,343
Derecognition-Disposals	(4,907)	(14,896)	0	0	0	0	0	**(19,803)**	
Derecognitions- Fully Depreciated			(7,917)	0	0	0	0	**(7,917)**	
Reclassified outside PPE			0	0	0	197	0	**197**	
Other Reclassifications	124	(124)	0	0	0	0	0	**0**	
At 31 March 2019	**673,002**	**646,245**	**47,033**	**251,563**	**3,897**	**3,234**	**29,026**	**1,654,000**	**76,896**
Accumulated Depreciation and Impairment									
At 1 April 2018	(19,264)	(189,330)	(18,539)	(40,620)	(49)	0	0	**(267,802)**	(11,339)
Reclassifications								**0**	
Depreciation Charge	(19,539)	(14,657)	(3,405)	(4,684)	0	0	0	**(42,285)**	(3,120)
Depreciation written out to the (Surplus)/ Deficit on the Provision of Services	19,264	3,221	0	0	(247)	0	0	**22,238**	3,221
Derecognition-Disposals		2,436	7,917			0	0	**10,353**	
At 31 March 2019	**(19,539)**	**(198,330)**	**(14,027)**	**(45,304)**	**(296)**	**0**	**0**	**(277,496)**	**(11,238)**
Net Book Value									
At 31 March 2019	**653,463**	**447,915**	**33,006**	**206,259**	**3,601**	**3,234**	**29,026**	**1,376,504**	**65,658**
At 31 March 2018	**651,341**	**460,679**	**34,982**	**187,782**	**3,597**	**3,031**	**11,209**	**1,352,620**	**64,214**

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	PP&E Under Construction £000	Total £000
Carried at Historic Cost			33,006	206,259	3,601		29,026	**271,892**
Valued at Fair Value in:								
2018/19	653,463	46,948				700		**701,111**
2017/18		90,399				170		**90,569**
2016/17		250				2,364		**2,614**
2015/16		280,151						**280,151**
2014/15		30,167						**30,167**
Net Book Value as at	**653,463**	**447,915**	**33,006**	**206,259**	**3,601**	**3,234**	**29,026**	**1,376,504**

Movement in Property, Plant & Equipment (PPE) 2017/18

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	PP&E Under Construction £000	Total £000	PFI Assets Included in PP&E £000
Cost or Valuation									
At 1 April 2017	658,902	625,310	51,569	209,499	3,640	0	26,807	**1,575,726**	95,164
Additions	26,335	33,788	1,942	13,976	0	8	12,590	**88,639**	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	3,151	0	0	0	270	0	**3,421**	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,927)	(19,719)	(405)	0	0	(8)	0	**(27,059)**	(19,611)
Derecognition-Disposals	(5,403)	(15,846)	(5)	0	0	0	0	**(21,254)**	
Derecognitions- Fully Depreciated	0	0	420	0	0	0	0	**420**	
Reclassified outside PPE	0	(2)	0	0	0	0	0	**(2)**	
Other Reclassifications	(2,302)	23,327	0	4,927	6	2,761	(28,188)	**531**	
At 31 March 2018	**670,605**	**650,009**	**53,521**	**228,402**	**3,646**	**3,031**	**11,209**	**1,620,422**	**75,553**
Accumulated Depreciation and Impairment									
At 1 April 2017	(18,894)	(174,793)	(14,368)	(36,184)	(49)	0		**(244,288)**	(14,885)
Reclassifications								**0**	
Depreciation Charge	(19,264)	(14,537)	(3,751)	(4,436)	0	0		**(41,988)**	(2,877)
Depreciation written out to the (Surplus)/ Deficit on the Provision of Services	18,894	0	0	0	0	0		**18,894**	6,423
Derecognition-Disposals			(420)			0		**(420)**	
At 31 March 2018	**(19,264)**	**(189,330)**	**(18,539)**	**(40,620)**	**(49)**	**0**	**0**	**(267,802)**	**(11,339)**
Net Book Value									
At 31 March 2018	**651,341**	**460,679**	**34,982**	**187,782**	**3,597**	**3,031**	**11,209**	**1,352,620**	**64,214**
At 31 March 2017	**640,008**	**450,517**	**37,201**	**173,315**	**3,591**	**0**	**26,807**	**1,331,438**	**80,279**

Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £42.8M. Similar commitments at 31 March 2018 were £20.4M. The major commitments are:

	2017/18 £000	2018/19 £000
HRA - Safe Wind and Weather Tight	10,626	22,369
HRA - Estate Regeneration & New Build	687	17,354
HRA - Well Maintained Communal Facilities	430	683
Enterprise Resource Platform	971	329
Springwell School Expansion	6,010	4
Other Various Minor Commitments	1,725	2,086
Total	**20,450**	**42,825**

13. Heritage Assets

As set out in our Accounting Policies, Note 1k) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2017	190,000	982	190,982
Additions		3	3
Revaluations			0
Adj for depreciation previously written out		(707)	(707)
31 March 2018	**190,000**	**278**	**190,278**
Accumulated Depreciation and Impairment			
01 April 2017		(736)	(736)
Adj for depreciation previously written out		707	707
31-Mar-18	**0**	**(29)**	**(29)**
Net Book Value			
31 March 2018	**190,000**	**249**	**190,249**
31 March 2017	**190,000**	**246**	**190,246**
	Works of Art £000	**Historic Buildings and Ancient Monuments £000**	**Total Assets £000**
Cost or Valuation			
01 April 2018	190,000	278	190,278
Additions		0	0
Adj for depreciation previously written out			0
31 March 2019	**190,000**	**278**	**190,278**
Accumulated Depreciation and Impairment			
01 April 2018	0	(29)	(29)
Depreciation		0	0
31 March 2019	**0**	**(29)**	**(29)**
Net Book Value			
31 March 2019	**190,000**	**249**	**190,249**
31 March 2018	**190,000**	**249**	**190,249**

14. Investment Properties

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

2017/18 £000		2018/19 £000
(9,280)	Rental Income	(9,687)
1,825	Operating Expenditure	1,661
(7,455)	**Net (Income)/ Expenditure**	**(8,026)**
(2,408)	Net (Gains)/ Losses from fair value adjustments	(3,984)
(9,863)	**Total Net (Income) / Expenditure**	**(12,010)**

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

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

	2017/18 £000	2018/19 £000
Balance at start of year	**120,824**	**125,067**
Additions:		
Purchases	0	0
Subsequent Expenditure	0	7,078
Disposals	0	(984)
Net gains / (losses) from fair value adjustments	2,408	3,984
Transfers		0
(to) / from Property, Plant and Equipment	1,835	(197)
Balance at End of Year	**125,067**	**134,948**

15. Intangible Assets

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

Purchased Software

	31 March 2018	31 March 2019
	£000	**£000**
Gross carrying amount	10,450	8,739
Derecognition of Assets fully amortised	0	(649)
	10,450	**8,090**
Accumulated amortisation	(4,160)	(2,537)
Net Carrying Amount at Start of the Year	**6,290**	**5,553**
Purchases	453	2,373
Amortisation for the period	(1,181)	(1,215)
Impairment in Year	(9)	0
Net Carrying Amount at End of the Year	**5,553**	**6,711**

16. Assets Held for Sale (AHFS)

Surplus Assets that have been marketed for sale and are expected to be disposed of within the next 12 months, however due the time in obtaining planning permission and other conditions some assets will remain as AHFS for longer than a year:

	2017/18	2018/19
	£000	**£000**
Balance at Start of Year	**2,364**	**0**
Transfers to Surplus assets	(2,364)	
Other movements		
Balance at End of Year	**0**	**0**

17. Financial Instruments

a) Financial Instruments Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and Government grants, do not give rise to financial instruments.

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

Financial Liabilities

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

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is not considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. Financial asset classifications have changed from 1 April 2018 with the adoption of IFRS 9 *Financial Instruments*, further details are provided in part i) below. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
  - cash in hand,
  - bank current and deposit accounts,
  - loans to other local authorities,
  - covered bonds issued by banks and building societies,
  - bonds issued by multilateral development banks and large companies,
  - loans made for service purposes,
  - trade receivables for goods and services provided.

- Fair value through profit and loss (all other financial assets) comprising:
  - money market funds managed by fund managers,
  - pooled property funds managed by CCLA fund managers,
  - equity investments

Financial assets held at amortised cost are shown net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

b) Financial Instruments Balances

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

Financial Liabilities	**Long Term** 31 March 2018 £000	31 March 2019 £000	**Short Term** 31 March 2018 £000	31 March 2019 £000	**Total** 31 March 2018 £000	31 March 2019 £000
Loans at amortised cost:						
- Principal sum borrowed	(197,344)	(160,875)	(53,469)	(85,469)	(250,813)	(246,344)
- Accrued interest			(1,935)	(1,856)	(1,935)	(1,856)
Total Borrowing	**(197,344)**	**(160,875)**	**(55,404)**	**(87,325)**	**(252,748)**	**(248,200)**
Loans at amortised cost:						
- Bank Overdraft			(391)	(3,367)	(391)	(3,367)
Total Cash Overdrawn	**0**	**0**	**(391)**	**(3,367)**	**(391)**	**(3,367)**
Liabilities at amortised cost:						
- Finance leases						0
- PFI arrangements	(56,878)	(54,004)			(56,878)	(54,004)
Total Long-term Creditors	**(56,878)**	**(54,004)**	**0**	**0**	**(56,878)**	**(54,004)**
Liabilities at amortised cost:						
- PFI arrangements			(1,962)	(2,874)	(1,962)	(2,874)
- Trade payables			(23,650)	(30,103)	(23,650)	(30,103)
Included in Creditors	**0**	**0**	**(25,612)**	**(32,977)**	**(25,612)**	**(32,977)**
Total Financial Liabilities	**(254,222)**	**(214,879)**	**(81,407)**	**(123,669)**	**(335,629)**	**(338,548)**

Financial Assets	**Long Term** 31 March 2018 £000	31 March 2019 £000	**Short Term** 31 March 2018 £000	31 March 2019 £000	**Total** 31 March 2018 £000	31 March 2019 £000
At amortised cost						
- Principal		3,060	10,000	13,612	10,000	16,672
- Accrued interest				152		152
Available for sale investments						
- Principal	34,645		3,000		37,645	
- Accrued interest			578		578	
- EIR adjustments	(275)		299		24	
- Fair value adjustments	569		(78)		491	
At fair value through profit & loss						
- Principal		27,000				27,000
- Accrued interest		0		301		301
- Fair value adjustments		451				451
Total Investments	**34,939**	**30,511**	**13,799**	**14,065**	**48,738**	**44,576**
Loans and Receivables						
- Cash			93		93	
- Cash equivalent at amortised cost			25,474		25,474	
At amortised cost						
- Principal				2,124		2,124
- Accrued interest						0
At fair value through profit & loss						0
- Principal				24,022		24,022
- Accrued interest						0
Total Cash and Cash Equivalents	**0**	**0**	**25,567**	**26,146**	**25,567**	**26,146**
Loans and receivables at amortised costs						
- Trade receivables			13,328	23,105	13,328	23,105
- Loans made for service purposes	51	28			51	28
Included in Debtors	**51**	**28**	**13,328**	**23,105**	**13,379**	**23,133**
Total Financial Assets	**34,990**	**30,539**	**52,694**	**63,316**	**87,684**	**93,855**

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under ‘current liabilities’ or ‘current investments’. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2019/20.

In light of the adoption of IFRS 9, the Council has reviewed its classification of creditors and debtors as trade payables and receivables. Prior year comparatives have not been restated as IFRS 9 is effective from 1 April 2018.

c) Offsetting Financial Assets and Liabilities

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

d) Financial Instruments – Gains and Losses

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

	2017/18	2018/19			
		Financial Liabilities	Financial Assets		
	Total £000	Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	Total £000
Interest expense	13,155	14,647			14,647
Gains/losses on derecognition	(135)	(64)			(64)
Impairment Losses	0	2,600			2,600
Interest Payable and Similar Charges	**13,020**	**17,183**			**17,183**
Interest income	(1,565)		(510)	(1,183)	(1,693)
Gains/losses on derecognition	(89)			(421)	(421)
Interest and Investment Income	**(1,654)**	**0**	**(510)**	**(1,604)**	**(2,114)**
Gains on revaluation	(116)				0
Losses on revaluation	0		460		460
Amounts recycled to the I&E Account after impairment	(116)		**460**		460
Impact of revaluation in Other Comprehensive Income					
Net Gain / (Loss) for the Year	**11,250**	**17,183**	**(50)**	**(1,604)**	**15,529**

Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2019.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- **Level 1** – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- **Level 2** – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- **Level 3** – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Balance Sheet 31 March 2018 £000	Fair Value 31 March 2018 £000		Fair Value Level	Balance Sheet 31 March 2019 £000	Fair Value 31 March 2019 £000
		Financial Liabilities held at amortised cost			
(208,813)	(261,871)	Public Works Loans	2	(197,344)	(247,984)
(9,000)	(12,959)	LOBO Loans	2	(9,000)	(12,922)
(56,878)	(98,439)	PFI/Finance Lease Liabilities	2	(56,878)	(95,147)
(274,691)	**(373,269)**			**(263,222)**	**(356,053)**
		Liabilities for which Fair Value is not disclosed*			
(34,935)		Short Term borrowing		(41,856)	
(391)		Bank Overdraft		(3,367)	
(25,612)		Trade Payables (Creditors)		(30,103)	
(60,938)				**(75,326)**	
(335,629)		**Total Financial Liabilities**		**(338,548)**	

* *The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.*

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

31 March 2018 £000	31 March 2018 £000			31 March 2019 £000	31 March 2019 £000
		Financial Assets held at Fair Value			
18,624	18,624	Money Market Funds	1	24,022	24,022
27,031	27,031	Property Funds	1	27,451	27,451
11,445	11,445	Corporate, Covered and Government Bonds	1		
57,100	**57,100**			**51,473**	**51,473**
		Financial Assets held at Amortised Costs			
		Corporate, Covered and Government Bonds	1	7,627	8,197
0	0			**7,627**	**8,197**
		Assets for which Fair Value is not disclosed**			
		Recorded on balance sheet as:			
51		Long Term Debtors		28	
10,217		Short Term investments		9,453	
45		Shares in unlisted companies		45	
6,943		Cash and Cash Equivalents		2,124	
13,328		Trade Receivables (Debtors)		23,105	
30,584				**34,755**	
87,684		**Total Financial Assets**		**93,855**	

***The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history having only been formed in 2015, and there are no similar companies whose shares are traded and which might provide comparable market data.*

e) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry of Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or costs.

The main risks covered are:

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

f) Credit Risk

Treasury Investments

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

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £70.7M (2017/18 £74.3M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2019 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Full Council on 21 February 2018. The Treasury Strategy can be seen as Item 64 on the Council Meeting Agenda found via the following web link:

Prudential Limits and Treasury Management Strategy 2018/19 to 2021/22

The Credit quality of Council's investments is enhanced by collateral held of £4.6M (2017/18 £7.6M) in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2019 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

	Long Term		Short Term	
Credit Rating	2018 £000	2019 £000	2018 £000	2019 £000
AAA	7,863	3,015	149	4,764
AA+			13,359	0
AA			6,911	9,021
AA-			11,203	17,001
A+			7,453	7,000
A				2,124
A-				
Shares in unlisted companies	45	45		
Unrated pooled funds	27,031	27,451	291	301
Total Investments	**34,939**	**30,511**	**39,366**	**40,211**

* *Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money.*

The above analysis shows that all deposits outstanding as at 31 March 2019 met the Council's minimum credit rating criteria of A- or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2019 was £0.004M (2018: £0.009M) but as this falls below the Council's de-minimus level no offset was made.

Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. Council Tax, Non Domestic Rates payments), are excluded as they have not arisen from contractual trading activities.

Trade Debtors and Impairment Allowance

	Outstanding 31 March 2018	Outstanding 31 March 2019
	£000	£000
Trade Debtors	13,328	**23,105**
Trade Debtors Impairment Allowance	(3,200)	**(4,969)**

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

- Adult Social Care clients (£0.967M)
- Housing tenants (£3.878M)
- Other service recipients (£0.124M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council’s trade debtors by due date.

2017/18 £000		2018/19 £000
	Trade debtors, analysed by age	
6,651	Less than two months	11,671
2,943	Two to six months	3,842
1,570	Six months to one year	3,214
2,164	More than one year	4,378
13,328		**23,105**

g) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 45% of the Council’s borrowing matures in any one financial year.

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

The maturity analysis of the principal borrowed as at 31 March 2019 was as follows:

Outstanding 31 March 2018	% of Total Debt Portfolio	Total Borrowing	Outstanding 31 March 2019	% of Total Debt Portfolio
£000	%	**Source of Loan**	£000	%
(208,813)	83	Public Works Loan Board	(197,344)	80
(42,000)	17	Other Financial Institutions	(49,000)	20
(250,813)	**100**		**(246,344)**	**100**
		Analysis of Loans by Maturity		
(44,469)	18	Less than 1 Year	(76,469)	31
(11,469)	4	Between 1 and 2 years	(19,278)	8
(47,028)	19	Between 2 and 5 years	(2,750)	1
(10,000)	4	Between 20 and 25 years	(10,000)	4
(5,000)	2	Between 25 and 30 years	(5,000)	2
(33,500)	13	Between 30 and 35 years	(42,000)	17
(50,600)	20	Between 35 and 40 years	(50,600)	20
(39,747)	16	Between 40 and 45 years	(31,247)	13
(9,000)	4	Uncertain Date**	(9,000)	4
(250,813)	**100**		**(246,344)**	**100**

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

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

Loans and Other Long term Liabilities Outstanding (Nominal Value)

	Outstanding 31 March 2018	Outstanding 31 March 2019
Source	**£000**	**£000**
Public Works Loan Board	(208,813)	(197,344)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(33,000)	(40,000)
PFI Liabilities	(58,840)	(56,878)
Total	**(309,653)**	**(303,222)**

h) Market Risk

Interest Rate Risk

The Council is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised costs and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income and Expenditure or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019 £247.2M (106%) (2017/18 £274M (109%) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £13.7M (2017/18 £23M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services has increased by £2.1M from 2017/18. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt. Even if the increase in short term borrowing rate was to materialise it would still be cheaper than borrowing the money long term.

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

2017/18		2018/19
		£000
680	Increase in interest payable on variable rate borrowings	1,567
(345)	Increase in interest payable on variable rate investments	(500)
	Decrease in fair value of investmets held at FVPL (assumes 5%)	1,373
335	**Impact on the Provision of Services (Surplus) / Deficit**	**2,440**
326	Share of overall impact debited/credited to HRA	539
0	**Impact on Other Comprehensive Income and Expenditure**	**0**
(44,330)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost *(no impact on Comprehensive Income and Expenditure)*	(42,590)

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

The Council has £9M (2018: £9M) of “Lender’s option, borrower’s option” (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

Price Risk

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

The Council’s investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk was limited by the Council’s maximum exposure to property investments. As at 31 March 2019 the Council had £27M (2017/18 £27M) invested in the Local Authority Property Fund which was valued with a capital gain of £0.451M (2017/18 £0.031M). A 5% (2017/18 5%) fall in commercial property prices would result in a £1.37M (2017/18 £1.35M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

i) Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 *Financial Instruments* accounting standard with effect from 1 April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements and disclosures. The adoption of the new standard has had no material impact on the Council and consequently there is no change to the General Fund balance at 1 April 2018. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31 March 2018 £000	Reclassification £000	Remeasurement £000	IFRS 9 1 April 2018 £000
Financial Liabilities				
Borrowing				
Amortised cost:	(252,748)			(252,748)
Cash Overdrawn				
Amortised cost:	(391)			(391)
Creditors				
Loans and receivables at amortised costs	(23,650)	23,650		0
Amortised cost:		(23,650)		(23,650)
Other Long Term Liabilities				
Amortised cost:	(58,840)			(58,840)
Total Financial Liabilities	**(335,629)**	**0**	**0**	**(335,629)**
Financial Assets				
Investments				
Amortised cost:	10,000	11,202		21,202
Available for sale investments	38,738	(38,278)	(460)	0
At fair value through profit & loss		27,076		27,076
Total Investments	**48,738**	**0**	**(460)**	**48,278**
Cash & cash equivalents				
Loans and receivables at amortised costs	25,567	(25,567)		0
At fair value through profit & loss		18,624		18,624
Amortised cost:	0	6,943		6,943
Total cash & equivalents	**25,567**	**0**	**0**	**25,567**
Debtors				
Loans and receivables at amortised costs	13,379	(13,379)		0
Amortised cost:		13,379		13,379
Total debtors	**13,379**	**0**	**0**	**13,379**
Total Financial Assets	**87,684**	**0**	**(460)**	**87,224**
Net Financial Liabilities	**(247,945)**	**0**	**(460)**	**(248,405)**

	IAS 39 31 March 2018 £000	Reclassification £000	Remeasurement £000	IFRS 9 1 April 2018 £000
Reserves				
Usable Reserves				
Useable Capital Receipts Reserve	(27,514)			(27,514)
Cap. Grants & Conts Unapplied	(19,371)			(19,371)
Earmarked Revenue Reserves	(86,077)			(86,077)
General Fund Balance	(11,316)		(460)	(11,776)
Housing Revenue Account Balance	(2,000)			(2,000)
Total usable reserves	**(146,278)**	**0**	**(460)**	**(146,738)**
Unusable Reserves				
Revaluation Reserves	(333,578)			(333,578)
Available-for-Sale Financial Instruments Reserve	(491)	491		0
Pooled Fund Adjustment Account		(31)		(31)
Capital Adjustment Account	(860,007)			(860,007)
Financial Instruments Adjustment Account	253			253
Pension Reserve	464,290			464,290
Collection Fund Adjustment Account	(3,786)			(3,786)
Accumulated Absences Account	1,999			1,999
Total unusable reserves	**(731,320)**	**460**	**0**	**(730,860)**
Total Reserves	**(877,598)**	**460**	**(460)**	**(877,598)**

18. Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2019.

31 March 2018 £000	Debtors	31 March 2019 £000
4,540	Central Government	5,574
581	Other Local Authorities	2,111
0	NHS Bodies	163
66,019	Other Entities and Individuals	55,798
(22,057)	Debtors Impairment Allowance	(25,831)
49,083	**Total Debtors**	**37,815**

19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by over £3.4M (2017/18 £0.40M), the Council's actual bank account balance at the Bank was a credit balance of £0.42M (2017/18

£0.27M) at 31 March 2019. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

31 March 2018 £000		31 March 2019 £000
(391)	Bank Accounts	(3,367)
(391)		(3,367)
18,624	Money Market Funds	24,022
6,850	Call Accounts	2,040
93	Petty Cash	84
25,567		26,146
25,176		**22,779**

20. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2019.

31 March 2018 Restated £000	Creditors	31 March 2019 £000
26,156	Central Government	12,510
2,865	Other Local Authorities	5,694
1,162	NHS Bodies	3,135
61,360	Other Entities and Individuals	58,036
91,543	**Total Creditors**	**79,375**

21. Provisions

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

	Balance at 31 March 2018	Additional Provisions Made in Year	Amounts Used in Year	Balance at 31 March 2019
	£000	£000	£000	£000
General Fund				
NDR Appeals Provision	9,635	7,257		16,892
General Insurance Funds	1,994	450	(440)	2,004
Other Provisions	951	537	(927)	561
Total	**12,580**	**8,244**	**(1,367)**	**19,457**

The Provisions are estimated to be utilised as follows:

	Short Term			Total Long Term	Balance at 31 March 2019
	Due within 1 Year	Due between 2 to 5 years	Over 5 years		
	£000	£000	£000	£000	£000
General Fund					
NDR Appeals Provision	10,356	6,536	0	6,536	16,892
General Insurance Funds	760	1,244	0	1,244	2,004
Other Provisions	561			0	561
Total	**11,677**	**7,780**	**0**	**7,780**	**19,457**

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council’s share of the provision (2018/19 99%, 2017/18 49%) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2019.

The estimate is a percentage of the gross rate yield after reliefs, based on national assumptions about refund levels and prior years’ refund levels, and a review of the VOA list of appeals outstanding and projected appeals.

The large increase in the balance is due to the Council recognising 99% of the appeals provision at 31 March 2019 under the 100% Business Rates Retention Pilot for 2018/19, compared to 49% previously.

b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of ‘self-insurance’. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for ‘claims reported but not settled’ as at 31 March 2019 amounted to £2.0M (2017/18 £2.0M). Additionally, a further £2.5M (2017/18 £2.7M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc.

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 decision of the Courts.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards.

c) Other Provisions

All other provisions are individually immaterial.

22. Unusable Reserves

a) Revaluation Reserve

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

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

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

2017/18 £000		2018/19 £000
(338,442)	Balance Brought Forward	(333,578)
(6,493)	Upward revaluations of assets	(11,339)
3,071	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,784
(3,422)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(9,555)
3,747	Difference between fair value depreciation and historical cost depreciation	4,040
4,539	Accumulated Revaluations on Disposals	2,822
(333,578)	**Balance Carried Forward**	**(336,271)**

b) Capital Adjustment Account (CAA)

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

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

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

Note 10 (Adjustments between Accounting Basis and Funding Basis Under Regulations) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 £000		2018/19 £000
(826,932)	Balance Brought Forward	(860,007)
	Capital Financing	
(5,896)	Usable Capital Receipts	(10,879)
(20,257)	Capital Grants & Contributions	(25,792)
(19,264)	HRA Financing from the Major Repairs Reserve	(19,539)
(11,760)	Revenue Contributions	(5,421)
(30,144)	Donated Asset	0
	Other Movements	
3,426	Revenue Expenditure Funded from Capital under Statute	5,206
(2,408)	Net gains/losses from fair value adjustments on Investment Properties	(3,984)
0	Deferred Considerations	0
1,181	Amortisation of Intangibles	1,215
50,162	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	45,202
21,254	Disposals	18,351
(3,747)	Historic Cost Depreciation Adjustment	(4,040)
(4,539)	Accumulated Revaluations on Disposals	(2,822)
(11,083)	Provision for the Financing of Capital Investment	(12,923)
0	Other adjustments	0
(860,007)	**Balance Carried Forward**	**(875,433)**

c) Pensions Reserve

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

The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2017/18		2018/19
£000		£000
424,960	**Balance at 1 April**	464,290
24,770	Remeasurement of the net defined benefit liability/(asset)	(38,270)
39,030	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	48,720
(24,470)	Employer's pension contributions and direct payments to pensioners payable in the year.	(29,900)
464,290	**Balance at 31 March**	444,840

d) Collection Fund Adjustment Account

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

2017/18		2018/19
£000		£000
(6,324)	Balance Brought Forward	(3,786)
1,248	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	792
1,290	Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	(2,522)
(3,786)	**Balance Carried Forward**	**(5,516)**

e) Accumulated Absences Account

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

2017/18		2018/19
£000		£000
2,052	Balance Brought Forward	1,999
(2,052)	Settlement or cancellation of accrual made at the end of the preceding year	(1,999)
1,999	Amounts accrued at the end of the current year	1,730
1,999	**Balance Carried Forward**	**1,730**

23. Notes to Cash Flow Statement

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

2017/18		2018/19
£000		£000
26,545	**Net Surplus or (Deficit) on the Provision of Services**	**(225)**
	Adjust net surplus or deficit on the provision of services for non cash movements	
41,988	Depreciation	42,285
8,174	Movement on assets charged to revenue	2,917
1,181	Amortisation	1,215
(433)	Adjustments for effective interest rates	110
0	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	(420)
564	Increase/(Decrease) in Interest Creditors	(79)
16,424	Increase/(Decrease) in Creditors	(2,706)
0	(Increase)/Decrease in Interest and Dividend Debtors	125
(7,607)	(Increase)/Decrease in Debtors	10,210
(192)	(Increase)/Decrease in Inventories	(28)
14,560	Pension Liability	18,820
(1,226)	Contributions to/(from) Provisions	6,877
21,254	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	18,351
(2,408)	Movement in Investment Property Values	(3,984)
92,279		**93,693**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(27,800)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(35,651)
(9,260)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(9,471)
0	Deferred capital receipt - transfer to the Capital Receipts Reserve upon receipt	(8)
(158)	Allowable deduction arising from disposal	(136)
(37,218)		**(45,266)**
81,606	**Net Cash Flows from Operating Activities**	**48,202**

b) Operating Activities – Interest

2017/18 £000		2018/19 £000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
1,132	Interest Received	2,129
(12,456)	Interest Paid	(14,544)

c) Cash Flows from Investing Activities

2017/18 £000		2018/19 £000
	Cash Flows from Investing Activities	
(91,755)	Property, Plant and Equipment Purchased	(83,954)
(20,025)	Purchase of short term investments	(45,110)
8,720	Proceeds from the sale of property plant and equipment, investment property and intangible assets	10,660
8,024	Proceeds from short-term and long-term investments	49,466
31,269	Other Receipts from Investing Activities - Capital Grants & Contributions Received	37,704
(63,767)	**Total Cash Flows from Investing Activities**	**(31,234)**

d) Cash Flows from Financing Activities

2017/18 £000		2018/19 £000
	Cash Flows from Financing Activities	
33,000	Cash receipts of short and long term borrowing	40,000
763	Billing Authorities - Council Tax and NNDR adjustments	(12,571)
(41,851)	Repayment of Short-Term and Long-Term Borrowing	(44,832)
(3,422)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,962)
(11,510)	**Total Cash Flows from Financing Activities**	**(19,365)**

e) Make-up of Cash and Cash Equivalents

2017/18 £000		2018/19 £000
	Makeup of Cash and Cash Equivalents	
93	Cash and Bank Balances	84
25,474	Cash Investments - regarded as cash equivalents	26,062
(391)	Bank Overdraft	(3,367)
25,176		**22,779**

f) Changes in liabilities

	1 April 2018	Cash Flows	Non-Cash Movements	31 March 2019
	£000	£000	£000	£000
Long-term borrowing	197,344		(36,469)	160,875
Short-term borrowing	55,404	(6,404)	38,325	87,325
Other deferred liabilities	14,553	(363)		14,190
Finance leases and PFI contracts	58,840	(1,962)		56,878
Total	**326,141**	**(8,729)**	**1,856**	**319,268**

24. Agency Services

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

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

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

Cash collected from NDR taxpayers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (99%) and Hampshire Fire and Rescue Authority (1%) (2017/18 Southampton City Council 49%, Government 50% and Hampshire Fire and Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from NDR Taxpayers.

25. Members' Allowances

The total of members' allowances paid in was £735k (2017/18 was £759k) as detailed in the table below.

	31 March 2018	31 March 2019
	£000	£000
Salaries	567	590
Allowances	146	139
Expenses	46	6
Total	**759**	**735**

26. Officers' Remuneration

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

a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2017/18.

			Number of Employees				
Band £		**2017/18**			**2018/19**		
		Schools	**Other**	**Total**	**Schools**	**Other**	**Total**
50,000 -	54,999	45	52	97	45	45	90
55,000 -	59,999	28	17	45	17	31	48
60,000 -	64,999	22	19	41	20	17	37
65,000 -	69,999	14	1	15	18	5	23
70,000 -	74,999	6	6	12	9	4	13
75,000 -	79,999	3	3	6	0	3	3
80,000 -	84,999	6	4	10	5	1	6
85,000 -	89,999	3	1	4	1	5	6
90,000 -	94,999	0	3	3	1	2	3
95,000 -	99,999	2	2	4	1	3	4
100,000 -	104,999	0	3	3	1	0	1
105,000 -	109,999	1	0	1	0	2	2
110,000 -	114,999	0	1	1	1	1	2
115,000 -	119,999	0	0	0	0	1	1
120,000 -	124,999	0	0	0	0	0	0
125,000 -	129,999	0	0	0	0	1	1
130,000 -	134,999	0	0	0	0	0	0
135,000 -	139,999	0	1	1	0	0	0
140,000 -	144,999	0	0	0	0	0	0
145,000 -	149,999	0	1	1	0	1	1
150,000 -	154,999	0	0	0	0	0	0
155,000 -	159,999	0	0	0	0	0	0
160,000 -	164,999	0	0	0	0	0	0
165,000 -	169,999	0	0	0	0	0	0
170,000 -	174,999	0	0	0	0	0	0
175,000 -	179,999	0	0	0	0	0	0
180,000 -	184,999	0	1	1	0	0	0
		130	**115**	**245**	**119**	**122**	**241**

2018/19

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2018/19	Pensions contributions (see Note 4)	Total Remuneration including pension contributions 2018/19
	£	£	£	£	£	£	£
Acting Chief Executive until 31/12/2018 - Richard Crouch	113,428	65			113,493	17,128	130,621
Chief Executive from 01/01/2019 - Sandy Hopkins	40,503				40,503	6,116	46,619
Chief Strategy Officer until 08/08/2018 - Suki Sitaram	51,850				51,850	7,829	59,679
Acting Chief Operations Officer until 31/12/2018 - Mike Harris	93,631	388			94,019	14,138	108,157
Chief Operations Officer from 01/01/2019 - Richard Crouch	36,531				36,531	5,516	42,047
Acting Deputy Chief Executive from 01/01/2019 - Mike Harris	34,002				34,002	5,134	39,136
Service Director Children & Families - Hilary Brooks	118,933	1,046			119,979	17,959	137,938
Acting Director of Adults Social Services until 02/11/2018 - Carole Binns (see Note 1)	48,266				48,266	7,288	55,554
Joint Director of Public Health - Jason Horsley (see Note 2)	105,557				105,557	15,939	121,496
Service Director Legal & Governance - Richard Ivory	113,399	1,673			115,072	1,399	116,471
Service Director Finance & Commercialisation until 11/01/2019 - Mel Creighton (see Note 3)	85,394				85,394	12,769	98,163
	841,494	**3,172**	**-**	**-**	**844,666**	**111,215**	**955,881**

Note 1
Between 03/11/2018 and 31/03/2019 this role was undertaken by Stephanie Ramsey via NHS Southampton City CCG. Payment for this period was £2,700.

Note 2
This role is jointly funded by Southampton City Council and Portsmouth City Council. Although all costs are shown here, 50% is recovered from Portsmouth City Council.

Note 3
Between 12/01/2019 and 31/03/2019 this role was undertaken by John Harrison via an external company. Payment for this period was £63,725 excluding VAT.

Note 4
There were no bonuses paid.

Note 5
In 2018/19 the employer's contribution rate for the Local Government Pension Scheme was 15.1%.

2017/18

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	**Total Remuneration excluding pension contributions 2017/18**	Pensions contributions (see Note 4)	**Total Remuneration including pension contributions 2017/18**
	£	£	£	£	£	£	£
Chief Executive until 31/03/2018 - Dawn Baxendale	181,977				181,977	25,659	207,636
Chief Strategy Officer - Suki Sitaram	145,016				145,016	20,447	165,463
Chief Operations Officer - Richard Crouch	138,414				138,414	19,516	157,930
Service Director Children & Families from 01/12/2017 - Hilary Brooks (see Note 1)	38,867				38,867	5,480	44,347
Acting Director of Adults Social Services - Carole Binns	88,531				88,531	12,483	101,014
Joint Director of Public Health - Jason Horsley (see Note 2)	103,059				103,059	14,531	117,590
Service Director Legal & Governance - Richard Ivory	111,175	1,313			112,488	15,676	128,164
Service Director Finance & Commercialisation - Mel Creighton	103,487				103,487	14,592	118,079
	910,526	**1,313**	**-**	**-**	**911,839**	**128,384**	**1,040,223**

Note 1

Between 01/04/2017 and 30/11/2017 this role was undertaken by Hilary Brooks via an external company. Payment for this period was £128,886 excluding VAT.

Note 2

This role is jointly funded by Southampton City Council and Portsmouth City Council. Although all costs are shown here, 50% is recovered from Portsmouth City Council.

Note 3

There were no bonuses paid.

Note 4

In 2017/18 the employer's contribution rate for the Local Government Pension Scheme was 14.1%.

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £1M (2017/18 £2.3M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory Redundancies		Number of Other Departures agreed		Total Number of packages by Cost Band		Total Cost of Exit Packages in each Band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000	2018/19 £000
£0-£20,000	20	10	42	28	62	38	453	327
£20,001-£40,000	2	0	10	5	12	5	315	138
£40,001-£60,000	3	0	6	2	9	2	402	88
£60,001-£80,000	1	0	2	2	3	2	198	131
£80,001-£100,000	0	1	2	0	2	1	177	83
£100,001-£150,000	2	1	4	1	6	2	723	215
£150,000+	0	0	0	0	0	0	-	-
Total	**28**	**12**	**66**	**38**	**94**	**50**	**2,268**	**982**

27. External Audit Costs

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

2017/18 £000		2018/19 £000
143	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	110
19	Fees payable to Ernst & Young in respect of grant claims and returns for the year	11
3	Fees payable to Fiander Tovell in respect of grant claims and returns for the year	12
(21)	Audit fee refund	0
4	Variation fees payable to Ernst & Young for 2016/17 Audit	0
148		**133**

28. Dedicated Schools Grants

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

Details of the deployment of DSG receivable for the year are as follows:

Details of the Deployment of DSG Receivable for 2018/19 are as Follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2018/19 before Academy recoupment			181,885
Academy figure recouped for 2018/19			(55,708)
Total DSG after Academy Recoupment for 2018/19			**126,177**
Plus: Brought forward from 2017/18			**(1,093)**
Agreed initial budgeted distribution in 2018/19	**12,138**	**112,945**	**125,084**
In year adjustments		423	423
Final Budgeted Distribution for 2018/19	**12,138**	**113,368**	**125,507**
Less: Actual central expenditure	(12,899)		(12,899)
Less: Actual ISB deployed to schools		(112,972)	(112,972)
Carry Forward to 2019/20	**(761)**	**396**	**(364)**

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions with related parties. For the City Council a "Related Party" is considered to be:

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 (Pension Schemes accounted for as a Defined Contribution) and Note 34 (Defined Benefit Pension Schemes); Southampton Clinical Commissioning Group as disclosed in Note 39 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. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis.

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

- One councillor is a trustee of Southampton Advice and Representation Centre (SARC) which received a grant of £0.155M (2017/18 £0.150M) from the Council. The councillor was not a trustee at the time of awarding of the grant and was not involved in the award.

Amounts Due to or from Related Parties

As at 31 March 2019, significant monies outstanding from related parties were:

2017/18	Money Owed to SCC	2018/19
£000		£000
4,506	HM Revenues & Customs	4,708
	Hampshire County Council	732
4,506	**Balance Carried forward**	**5,440**
	* Non material balances not included in previous years figures	

There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of:

2017/18 Restated	Money Owed by SCC	2018/19
£000		£000
14,121	Ministry of Housing, Communities & Local Government	3,743
3,362	HM Revenue & Customs (PAYE & National Insurance)	3,456
7,473	Department for Work & Pensions (DWP)	3,036
	Teachers' Pension Scheme	1,131
1,655	Hampshire County Council	1,767
	Portsmouth City Council	2,743
1,229	Hampshire County Council (Local Government Pensions)	1,680
434	NHS Southampton Clinical Commissioning Group	2,472
28,274	**Balance Carried forward**	**20,028**
	* Non material balances not included in previous years figures	

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

CAPITAL EXPENDITURE AND FINANCING

	2017/18 £000	2018/19 £000
Opening Capital Financing Requirement	**485,808**	**479,950**
Capital Investment		
Intangible assets	453	2,373
Property Plant & Equipment	88,639	76,700
Revenue Expenditure Funded from Capital under Statute	3,426	5,206
Heritage Assets	3	0
Investment Properties	0	7,078
Financial Instruments	25	0
Sources of Finance		
Capital Receipts	(5,896)	(10,879)
Government grants & other contributions	(20,257)	(25,792)
HRA Depreciation (formerly Major Repairs Allowance)	(19,264)	(19,539)
Direct Revenue Financing	(11,760)	(5,421)
Donated Asset	(30,144)	0
MRP	(11,083)	(12,923)
Closing Capital Financing Requirement	**479,950**	**496,753**
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,225	29,726
MRP	(11,083)	(12,923)
Increase / (Decrease) in Capital Financing Requirement	**(5,858)**	**16,803**

31. Leases

a) Council as a Lessor

Operating Leases

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

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

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

	31 March 2018 £000	31 March 2019 £000
Not later than one year	7,481	7,407
Later than one year and not later than five years	22,152	20,850
Later than five years	527,380	523,492
	557,013	**551,749**

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

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

32. PFI and Similar Contracts

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

a) On Balance Sheet

PFI Schools

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

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

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

Hampshire Waste Contract

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

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

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

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

PFI Street Lighting

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

b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

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

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows:

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2018	38,768	10,966	25,819	75,553
Additions				0
Disposals				0
Revaluations		1,343		1,343
Impairments				0
At 31 March 2019	**38,768**	**12,309**	**25,819**	**76,896**
Depreciation & Impairment				
At 1 April 2018	(4,237)	(3,221)	(3,881)	(11,339)
Depreciation Charge for the Year	(1,372)	(887)	(861)	(3,120)
Disposals				0
Revaluations		3,221		3,221
Impairments				0
At 31 March 2019	**(5,609)**	**(887)**	**(4,742)**	**(11,238)**
Balance Sheet amount at 31 March 2019	**33,159**	**11,422**	**21,077**	**65,658**
Balance Sheet amount at 31 March 2018	**34,531**	**7,745**	**21,938**	**64,214**

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

	PFI - Schools	Hampshire Waste Contract	PFI - Street Lighting	Total
	£000	£000	£000	£000
Balance 1 April 2018	30,763	6,695	21,382	58,840
New Schemes in 2018/19	0	0	0	0
Repayments	(822)	(846)	(294)	(1,962)
Balance 31 March 2019	**29,941**	**5,849**	**21,088**	**56,878**
Due within 1 Year				
Balance 1 April 2018	822	846	294	1,962
Repayments	(822)	(846)	(294)	(1,962)
Due within 1 Year	1,584	925	365	2,874
Balance 31 March 2019	**1,584**	**925**	**365**	**2,874**
Long Term Creditor Balance 31 March 2019	**28,357**	**4,924**	**20,723**	**54,004**

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

	PFI - Schools				Hampshire Waste			PFI - Street Lighting			Total
	Liability	Interest	Service Charges	Contingent Rents	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,585	2,544	1,703	984	925	1,053	5,855	365	2,516	1,240	**18,770**
within 2 to 5 years	6,591	8,797	8,664	4,519	4,129	2,397	26,163	2,202	9,526	5,299	**78,287**
within 6 to 10 years	12,911	7,192	10,386	9,270	795	153	9,745	5,330	15,168	7,462	**78,412**
within 11 to 15 years	8,854	1,350	4,764	6,161	0	0	0	10,256	5,455	8,518	**45,358**
within 16 to 20 years								2,935	266	1,843	**5,044**
Balance 31 March 2019	**29,941**	**19,883**	**25,517**	**20,934**	**5,849**	**3,603**	**41,763**	**21,088**	**32,931**	**24,362**	**225,871**

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

	BUPA Care Homes		
	Northlands	**Oak Lodge**	**Total**
	£000	**£000**	**£000**
within 1 year	2,346	1,567	3,913
within 2 to 5 years	9,383	6,269	15,652
within 6 to 10 years	10,955	7,837	18,792
within 11 to 15 years	0	7,837	7,837
within 16 to 20 years		1,332	1,332
Balance 31 March 2019	**22,684**	**24,842**	**47,526**

Payments for the year in respect of PFI and service concession arrangements were as follows:

	Liability	**Interest**	**Service Charges**	**Contingent Rents**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
PFI Schools	822	2,614	2,899	334	6,669
Hampshire Waste	846	1,205	5,651		7,702
PFI Street Lighting	294	2,553	1,207		4,054
BUPA Care Homes					
Northlands			2,267		2,267
Oak Lodge			1,468		1,468
Totals	**1,962**	**6,372**	**13,492**	**334**	**22,160**

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2018/19 the Council paid £6.8M to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay (2017/18 £7.5M and 16.5%).

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

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of the employment of its Officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined In accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Corporate Resources of Hampshire County Council and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

b) Transactions Relating to Post-employment Benefits

In 2018/19 the Council paid an employer's contribution of £29.9M (2017/18 £24.5M) into Hampshire County Council's Pension Fund. The employer's rate for 2018/19 was 15.1% (2017/18 14.1%) of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% (2017/18 6.0%) of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £29.16M. The weighted average duration of the defined benefit obligation for the scheme members is 19.2 years.

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost comprising:						
Current Service Cost	26,970	36,430	0	0	26,970	36,430
Past Service Cost	1,330	600	0	0	1,330	600
(Gain)/loss from settlements						
Financing and Investment Income and Expenditure Expenditure						
Net interest expense	9,780	10,760	950	930	10,730	11,690
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**38,080**	**47,790**	**950**	**930**	**39,030**	**48,720**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(3,110)	(57,020)	0	0	(3,110)	(57,020)
Actuarial gains and losses arising on changes in demographic assumptions	0	(52,570)	0	(1,600)	0	(54,170)
Actuarial gains and losses arising on changes in financial assumptions	20,740	69,900	310	870	21,050	70,770
Other experience and actuarial adjustments	6,470	2,040	360	110	6,830	2,150
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	24,100	(37,650)	670	(620)	24,770	(38,270)
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(38,080)	(47,790)	(950)	(930)	(39,030)	(48,720)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers Contributions payable to scheme	22,170	27,590			22,170	27,590
Retirement benefits payable to pensioners			2,300	2,310	2,300	2,310

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2019 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £444.8M (2017/18 £464.3M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Present value of the defined benefit obligation	1,220,730	1,284,830	36,970	34,970	1,257,700	1,319,800
Fair value of plan assets	(793,410)	(874,960)			(793,410)	(874,960)
Sub-total	427,320	409,870	36,970	34,970	464,290	444,840
Other movements in the liability (asset)	0	0	0	0	0	0
Net liability arising from defined benefit obligation	**427,320**	**409,870**	**36,970**	**34,970**	**464,290**	**444,840**

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2016. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2019.

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Opening balance at 1 April	1,158,160	1,220,730	37,650	36,970	1,195,810	1,257,700
Current service cost	26,970	36,430	0	0	26,970	36,430
Interest cost	29,820	31,440	950	930	30,770	32,370
Contributions from scheme participants	6,090	7,020	0	0	6,090	7,020
Remeasurement (gains) and losses:			0	0	0	0
Actuarial gains/losses arising from changes in demographic assumptions	0	(52,570)	0	(1,600)	0	(54,170)
Actuarial gains/losses arising from changes in financial assumptions	20,740	69,900	310	870	21,050	70,770
Other	6,470	2,040	360	110	6,830	2,150
Past service cost	1,330	600	0	0	1,330	600
Losses/(gains) on curtailment (where relevant)	0	0	0	0	0	0
Liabilities assumed on entity combinations	0	0	0	0	0	0
Benefits paid	(28,850)	(30,760)	(2,300)	(2,310)	(31,150)	(33,070)
Liabilities extinguished on settlements (where relevant)			0	0	0	0
Closing balance at 31 March	**1,220,730**	**1,284,830**	**36,970**	**34,970**	**1,257,700**	**1,319,800**

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
Opending fair value of scheme assets	770,850	793,410	0	0	770,850	793,410
Interest income	20,040	20,680	0	0	20,040	20,680
Remeasurement gain/(loss)	3,110	57,020	0	0	3,110	57,020
The return on plan assets, excluding the amount included in the net interest expense			0	0	0	0
Other			0	0	0	0
The effect of changes in foreign exchange rates			0	0	0	0
Contributions from employer	22,170	27,590	2,300	2,310	24,470	29,900
Contributions from employees into the scheme	6,090	7,020	0	0	6,090	7,020
Benefits paid	(28,850)	(30,760)	(2,300)	(2,310)	(31,150)	(33,070)
Other	0	0	0	0	0	0
Closing fair value of scheme assets	**793,410**	**874,960**	**0**	**0**	**793,410**	**874,960**

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	24.1	23.3	24.1	23.3
Women	27.2	26.1	27.2	26.1
Longevity at 65 for future pensionsers:				
Men	26.2	24.9	-	-
Women	29.4	27.8	-	-
RPI inflation	3.2%	3.3%	3.2%	3.3%
CPI inflation	2.1%	2.2%	2.1%	2.2%
Rate of increase in salaries	3.6%	3.7%	-	-
Rate of increase in pensions	2.1%	2.2%	2.1%	2.2%
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.4%

f) Pension Scheme Assets

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

	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	58.50	4.10	62.60	54.00	6.40	60.40
Property	0.70	6.30	7.00	0.70	6.90	7.60
Government Bonds	23.50	0.20	23.70	22.60	0.10	22.70
Corpoarte Bonds	1.00	-	1.00	1.10	4.10	5.20
Cash	2.60	-	2.60	2.30	-	2.30
Other	0.20	2.90	3.10	0.10	1.70	1.80
Total assets	**86.50**	**13.50**	**100.00**	**80.80**	**19.20**	**100.00**

g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	40,780	(40,490)
Rate of increase in salaries (increase or decrease by 1%)	4,730	(4,690)
Rate of increase in pensions (increase or decrease by 1%)	20,120	(19,780)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(24,420)	24,890

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 Director of Corporate Resources, The Castle, Winchester, Hampshire, SO23 8UB.

35. Contingent Liabilities/ Assets

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

a) Municipal Mutual Insurance – Scheme of Arrangement

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.346M (2017/18 £0.346M) has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.350M (2017/18 £0.350M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review.

As at 31 March 2019, the Council's outstanding potential liability under the SoA stood at £1.384M (2017/18 £1.372M).

b) Final account for building works

The Council has not reached agreement with a contractor over the final account for some building works. The difference between the positions of the respective parties stands at £2.4M. Detailed discussions are ongoing and it is not possible to accurately estimate when these will be concluded.

c) Pension contingent liabilities

McCloud/Sargeant case

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement, the Government has applied to the Supreme Court for permission to appeal this judgement, if the appeal is unsuccessful the case would be referred back to the Employment Tribunal and it would be prudent to assume the remedy would be equivalent to extending the 'best of both' underpin to all members.

The Government Actuary's Department (GAD) under instruction of the LGPS Scheme Advisory Board, has calculated a potential IAS 19 accounting liability expected to be 0.5% to 1.0% of defined benefit obligation, should the government be unsuccessful in its application to appeal or if the Court of Appeal's judgement is upheld by the Supreme Court and the agreed remedy for the LGPS is to extend the 'underpin' protections to all members. This estimate is at Scheme level encompassing a range of different assumptions typically used by employers to report pension costs, for the Council this is expected to be around £2.2M to £4.4M. The eventual impact on the Council's accounts will depend on the remedy chosen by government to compensate members (which may not be the scenario modelled by the GAD); the membership profile (age/sex/salary) or the Council's membership and the assumptions used to report pension costs at time of recognition.

GMP Indexation and Equalisation

In March 2016 the Government introduced an 'interim solution' which made the LGPS responsible for paying the full increases on Guaranteed Minimum Pensions (GMPs) for individuals reaching State Pension Age (SPA) before December 2018. This costs was accounted for in 2017. In January 2018 Government extended this to individuals reaching SPA after 5 April 2021, passing further costs on to the LGPS. This has not yet been accounted for.

Separately the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. HM Treasury responded to confirm that public sector schemes already have a method to equalise guaranteed minimum pension benefits.

Aon, as the Fund's actuary has estimated that the potential IAS 19 accounting liability of full GMP indexation (and equalisation) for members reaching State Pension Age from 6 December 2018 to be in the region of 0.3% of the defined benefit obligation (£1.33M). This estimate has been calculated for a typical LGPS Fund and is indicative of an additional liability for a typical employers and does not reflect the individual characteristics of the Council's membership. Costs could be higher for employers with a membership that is older than average (who predominantly accrued service between 1978 and 1997 when GMPs were being accrued).

36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2018/19 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationships:

Capita Southampton Ltd (CSL)

In 2016 the Council formed a company with its strategic partner Capita to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. On 18 July 2018 Full Council made the decision to bring the services currently provided by the Capita Strategic Services Partnership back in-house. The Council sold its 20% equity shares in Capita Southampton Ltd in December 2018 and no longer holds any interests in the company.

PSP Southampton LLP

In 2014 the Council entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

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

- To assist in achieving broader social, economic and environmental outcomes.
- A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

A review of PSP indicates a joint venture, which would require the arrangement to be accounted as for an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2019 was £0.432M (2017/18 £0.683M).

Having given due consideration to the qualitative and quantitative aspects of materiality, the Council concludes that the preparation of group accounts is not material to the "true and fair view" of the financial position, financial performance and the cash flows of the authority and to the understanding of the users.

37. Capital and Revenue Grants & Contributions, Receipts in Advance

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

2017/18		2018/19
£000		£000
(23,731)	Balance Brought Forward	(27,200)
(16,042)	Amounts Received in Year	(17,221)
12,573	Amounts Applied to Finance Capital in year	15,176
(27,200)	**Balance Carried forward**	**(29,245)**

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

2017/18 £000		2018/19 £000	2018/19 £000
	Grants		
	Department for Education		
(124)	Framework Academies	0	
(3,594)	Basic Need Grant	(5,452)	
(4,573)	Targeted Capital Fund	(5,259)	
(563)	Schools Devolved Formula Grant	(463)	
(3,328)	Capital Maintenance Grant	(769)	
(30,144)	Donated Asset - Bitterne Park School	0	
(357)	Other	(121)	
(42,683)			(12,064)
(1,004)	Ministry of Housing, Communities and Local Government		(1,477)
(123)	Department for Environment, Food and Rural Affairs		(1,645)
(4,585)	Department for Transport		(10,094)
(563)	Homes & Communities Agency		0
(2,293)	Arts Council		(847)
(48)	Other		(45)
(51,299)			**(26,172)**
(6,645)	**Contributions**		(9,478)
(57,944)	**Total**		**(35,650)**
(54,950)	**Credited to Capital Grants and Contributions CIES**		**(33,189)**
(2,994)	**Credited to Cost of Services**		**(2,461)**
(57,944)	**Total**		**(35,650)**

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

2017/18 £000		2018/19 £000
	General Government Grants	
(23,248)	Revenue Support Grant	0
	Business Rates Retention Tariff	28,476
(1,369)	Housing and Council Tax Benefit Admin Grant	(1,264)
(5,898)	MHCLG - New Homes Bonus Scheme	(5,265)
(3,120)	Section 31 Grants	(7,620)
(5,585)	Additional and Improved Better Care Fund	
(3,983)	Other	(1,828)
(43,203)		**12,499**
	Credited to Services	
(127,634)	Dedicated Schools Grant (DSG)	(126,601)
(17,344)	Public Health Grant	(16,898)
(91,495)	Housing Benefit Grant	(79,075)
(9,013)	Pupil Premium	(8,437)
(5,859)	Private Finance Initiative (PFI)	(5,859)
	Additional and Improved Better Care Fund	(6,446)
	Universal Infant Free School Meals	(1,957)
	Adult Social Care Winter Pressures Grant	(1,109)
(11,188)	Other Grants	(8,657)
(262,533)		**(255,039)**

As part of the 100% Business Rates Retention pilot, the Council received no Revenue Support Grant in 2018/19 and incurred a tariff charge of £28.5M to offset the additional business rates income retained.

Additional and Improved Better Care Fund was recorded in general government grants in 2017/18. For 2018/19 the treatment has been changed to service specific grant.

38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £0.4M per annum.

31 March 2018 £000		31 March 2019 £000
14,917	Balance Brought Forward	14,553
0	Principal raised in year	0
(364)	Principal written down	(363)
14,553		**14,190**

39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Southampton City Clinical Commissioning Group (CCG) with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and CCG have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

Locality Based Hospital Unit (LBHU) pooled budget: hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

Reablement & Rehabilitation (R&R) pooled budget: hosted by the CCG; services commissioned under this scheme include CCG contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

2017/18 LBHU £000	%	2017/18 R&R £000	%	Better Care Fund	2018/19 LBHU £000	%	2018/19 R&R £000	%
				Funding - Contributions / Grants				
0		0		Brought Forward	0		0	
(1,446)	49%	(4,590)	30%	Southampton City Council	(1,274)	49%	(5,200)	31%
(1,505)	51%	(10,900)	70%	Southampton Clinical Commissioning Group	(1,326)	51%	(11,828)	69%
(2,951)		**(15,490)**			**(2,600)**		**(17,028)**	
2,943		15,490		**Expenditure**	2,600		17,028	
(8)		**0**		**Carried Forward**	**0**		**0**	

40. Trust and Other Funds

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. The funds are not owned by the Council and have not been included in the Council's Balance Sheet. The funds are used in accordance with the aims of the particular charity or trust.

	Income £000	Expenditure £000	Assets £000	Purpose
Aldridge Bequest	(8)	0	**(224)**	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(1)	0	**(172)**	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	**(46)**	Works of art
LC Smith Bequest	0	0	**(34)**	Merchants Navy's Memorial maintenance help in Holyrood Church
Minor Trust Funds consisting of:				
Ida Bany Bequest	0	0	**(13)**	Books about America
De Gee	0	0	**(1)**	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	**(3)**	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	**(4)**	Bitterne Park School special annual prizes
Trust Funds Total	**(9)**	**0**	**(497)**	
Wessex Slaughterhouse Board	(1)	0	**(93)**	Pensions to former employees
Total	**(10)**	**0**	**(590)**	

102

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. 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 and between the HRA and General Fund.

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

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

HRA Income and Expenditure Statement

2017/18 £000		Notes	2018/19 £000
	Expenditure		
12,642	Repairs and maintenance		13,769
24,567	Supervision and management		24,796
4,450	Rents, rates, taxes and other charges		4,324
7,834	Depreciation, impairment and revaluation (gains) of non-current assets		20,864
84	Debt management costs		80
1,205	Movement in the allowance for bad debts	1	890
50,781	**Total Expenditure**		**64,723**
	Income		
(71,434)	Dwellings rent		(70,307)
(1,089)	Non-dwelling rents		(1,257)
(6,422)	Charges for services & facilities		(6,393)
(817)	Contributions towards expenditure		(873)
(79,763)	**Total Income**		**(78,830)**
(28,981)	**Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement**		**(14,107)**
518	HRA services' share of Corporate and Democratic Core		518
(28,463)	**Net Expenditure/ (Income) for HRA Services**		**(13,589)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(3,290)	(Gain) or loss on the sale of HRA non-current assets		(2,823)
(251)	Capital Receipts not matched by Disposal of Assets		96
(159)	Investment Property Revaluation Movements		(68)
5,370	Interest payable and similar charges		5,339
(10)	Interest and investment income		(19)
1,291	Net interest on the net defined benefit liability		1,266
(943)	Capital grants and contributions receivable		(3,058)
(26,454)	**(Surplus) or Deficit for the Year on HRA Services**		**(12,856)**

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

2017/18 £000		2018/19 £000	£000
(3,000)	Opening Balance		**(2,000)**
	Movement in Year		
(26,454)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(12,856)	
27,454	Adjustments between accounting basis and funding basis under statute	12,856	
1,000	Transfer to / (from) reserves		**0**
(2,000)	**Closing HRA Balance**		**(2,000)**

Note to Statement of Movement on the Housing Revenue Account

2017/18 £000		2018/19 £000
	Analysis of adjustments between accounting basis and funding basis under statute	
(7,834)	Depreciation, impairment and revaluation (gains) of non-current assets	(20,864)
5,511	Voluntary MRP	5,502
3,541	Gain or (loss) on the sale of HRA non-current assets	2,727
(13)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(12)
159	Impairment and revaluation of investment properties	68
(1,752)	HRA share of contribution to or from the pension reserve	(2,038)
19,264	Transfer to Major Repairs Reserve	19,539
943	Capital grants and contributions applied	3,058
7,635	Capital expenditure funded by the HRA	4,876
27,454	**Net Adjustment**	**12,856**

1. Council House Rents

At 31 March 2019, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 11.09% (31 March 2018 9.48%). The total arrears were £6.909M (31 March 2018 £5.293M). Rents written off during the year amounted to £0.212M (2017/18 £0.152M). The amount set aside for doubtful debts was £3.878M (31 March 2018 £3.200M). The staged implementation of Universal Credit has led to an increase in the arrears owed by tenants of £1.00M (28.2%) since 2017/18. While it is believed that this increase is a direct result of the built-in delay of 6 weeks before payment is made, and that while the level of arrears is substantially higher, the level of default will not increase proportionately.

However, as historical collection data for arrears relating to Universal Credit is not available it has been felt prudent to increase the level of the provision in line with the increase in arrears until the future default profile becomes apparent.

2. Housing Stock

As at the 31 March 2019, the Council housing stock was made up of the following types of property:

Number of Properties Held

31 March 2018		31 March 2019
5,036	Houses	4,982
11,059	Flats	11,020
16	Bungalows	16
16,111		**16,018**

The Balance Sheet value of HRA assets was as follows:

Balance Sheet Value of HRA Assets

2017/18 £000		2018/19 £000
	Property Plant & Equipment	
651,341	Dwellings	653,463
7,595	Other Operational Property	8,770
6,279	Assets Under Construction	20,441
665,215		**682,674**
	Other Property	
5,381	Investment Property	5,252
167	Surplus Assets	370
5,548		5,622
670,763		**688,296**

The vacant possession value of Council Dwellings at 1 April 2018 was £1,962M (£1,907M as at 1 April 2017) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2019.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There was £1M (2017/18 £0.568M) of impairment charges on the dwelling stock during the year which related to the properties purchased at market value and then impaired down to the basis of rents receivable on existing tenancies .

2017/18 £000	**Depreciation**	2018/19 £000
18,894	Balance at 1 April	19,264
(18,894)	Depreciation written off in year	(19,264)
19,264	Depreciation during year	19,539
19,264	**Balance as at 31 March**	**19,539**

4. Capital Expenditure

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

Capital Spending

2017/18 £000		2018/19 £000
26,335	Housing Stock	29,074
5,658	Housing Stock Under Construction	14,162
0	Other Property	0
31,993	**Total Capital Expenditure**	**43,236**

Capital Expenditure Source of Finance

£000		£000
3,344	Capital Receipts	5,449
563	Grants	0
19,264	Transfer from Major Repairs Reserves	19,539
380	Contributions	3,058
7,634	Direct Revenue Funding	4,876
808	Unsupported Borrowing	10,314
31,993	**Total Financing**	**43,236**

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need.

In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules changed to allow local authorities to retain receipts that exceed a predetermined set level.

Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2018/19 the Council received £3.63M (2017/18 £4.42M) from right to buy sales that can be utilised on new build affordable housing projects.

2017/18 £000	Sale of Assets	2018/19 £000
8,850	Council Housing	7,675
251	Land, Buildings & Equipment	96
9,101		**7,771**

The Collection Fund

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

Income and Expenditure for the Year Ended 31 March 2019

2017/18			2018/19
£000	**Council Tax**	**Notes**	**£000**
	Income		
(105,146)	Income due from Council Tax Payers		(112,890)
	Transfers (to)/ from the General Fund		
(200)	- Hardship Relief		(198)
(200)			(198)
(105,346)			**(113,088)**
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
1,778	- Southampton City Council		0
213	- Hampshire Police Authority		0
83	- Hampshire Fire & Rescue Authority		0
2,074			0
(103,272)	**Total Council Tax Income**		**(113,088)**
	Expenditure		
	Precepts		
88,480	- Southampton City Council Precept		95,934
10,407	- Hampshire Police & Crime Commissioner Precept		11,419
4,016	- Hampshire Fire & Rescue Authority Precept		4,230
102,903		2	**111,583**
	Impairment of debts		
1,513	- Write offs		527
312	- Allowance for impairment		1,885
1,825			**2,412**
104,728	**Total Council Tax Expenditure**		**113,995**
1,456	**Council Tax - Deficit / (Surplus) for the Year**	4	**907**
(3,842)	Council Tax - Deficit / (Surplus) Brought Forward	4	(2,386)
(2,386)	**Council Tax Deficit / (Surplus) Carried Forward**	4	**(1,479)**
	Business Rates		
	Income		
(106,289)	Income Collectable from Business Ratepayers	3	**(111,057)**
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
2,323	- Southampton City Council		703
2,370	- Central Government - MHCLG		718
47	- Hampshire Fire & Rescue Service		14
4,740			**1,435**
(101,549)	**Total Business Rates Income**		**(109,622)**
	Expenditure		
3,018	- Payment to MHCLG - Transitional Arrangements		2,304
48,892	- Payment to MHCLG - Business Rate Retention		0
47,914	- SCC Business Rates Retention		104,322
978	- HFRA Precept		1,054
0	- Interest on Overpayments		0
311	- Costs of Collection		311
101,113			**107,991**
	Impairment of debts/appeals		
625	- Write offs		4,120
1,605	- Allowance for impairment		(1,711)
840	- Appeals provision		(2,601)
3,070			**(192)**
104,183	**Total Business Rates Expenditure**		**107,799**
2,634	**Business Rates (Surplus) / Deficit For the Year**	4	**(1,823)**
(6,175)	Business Rates - Deficit / (Surplus) Brought Forward	4	**(3,541)**
(3,541)	**Business Rates Deficit / (Surplus) Carried Forward**	4	**(5,364)**
(5,927)	**Total Collection Fund (Surplus) / Deficit**	**4**	**(6,843)**

1. Introduction

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

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

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

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2018/19 the Council was part of a 100% business rates retention pool pilot. The Council share of NDR rates was 99% with the remainder paid to Hampshire Fire and Rescue Authority (1%) (2017/18 Southampton City Council 49%, Central Government 50%, HFRA 1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

2. Council Tax Base

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

The Council Tax base for 2018/19 was 66,062 (2017/18 64,579). The tax base for 2018/19 was calculated as follows:

Council Tax Base

	Net Chargeable Dwellings	Relevant Proportion	Band D Equivalents
Band A Disabled	14.2	5/9	7.9
Band A	21,528.8	6/9	14,352.5
Band B	27,017.6	7/9	21,013.7
Band C	18,914.5	8/9	16,812.9
Band D	8,097.6	9/9	8,097.6
Band E	2,706.2	11/9	3,307.6
Band F	1,263.0	13/9	1,824.3
Band G	385.7	15/9	642.8
Band H	1.5	18/9	3.0
	79,929.1		**66,062.3**

Taking the total Band D equivalents of 66,062 (2017/18 64,579) and multiplying this by the standard Council Tax of £1,734.14 (2017/18 £1,635.98) gives a total estimated income from taxpayers of £114.6M (2017/18 £105.6M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was

97.4%, giving a net Council Tax Base of 64,345. Multiplying this by the standard Council Tax of £1,734.14 gives the total precepts on the Collection Fund of £111.6M (62,900 times by £1,635.98 - £102.9M 2017/18).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. In addition, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

In 2018/19 Southampton City Council was part of a 100% Business Rates retention pool pilot along with Portsmouth City Council and the Isle of Wight Council. The shares applicable for the pilot scheme were:

- Southampton City Council (99%)
- Hampshire Fire and Rescue Authority (1%)

The Council in 2018/19 estimated NDR Income of approximately £105.4M (2017/18 £97.8M), £104.3M (2017/18 £47.9M) retained by the Council, £1.1M (2017/18 £1.0M) payable to Hampshire Fire and Rescue Authority) and none payable to Central Government (2017/18 £48.9M). The Rateable Value on 31 March 2019 was £266.2M (2017/18 £267.1M) and the Business Rate Multiplier for the year 48.0p (2017/18 46.6p) in the £, giving gross rates before reliefs of £127.9M (2017/18 £121.0M).

4. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is £6.8M (2017/18 £5.9M). An analysis of the balance showing the in-year surplus/deficit and cumulative position is provided in the following table:

Analysis of Collection Fund Balance

	In Year			Cumulative		
	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total
	£000	£000	£000	£000	£000	£000
Central Government		718	718		(1,053)	(1,053)
Southampton City Council	792	(2,522)	(1,730)	(1,259)	(4,257)	(5,516)
Hampshire Fire & Rescue Service	79	(19)	60	(165)	(54)	(219)
Hampshire Police Authority	36		36	(55)		(55)
Balance as at 31 March	**907**	**(1,823)**	**(916)**	**(1,479)**	**(5,364)**	**(6,843)**

GLOSSARY

1. Accruals

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

2. Budget

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

3. Capital Adjustment Account (CAA)

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

4. Capital Expenditure

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

5. Capital Receipts

The proceeds from the sale of capital assets.

6. Community Assets

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

7. 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.

8. Council Tax

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

9. Creditor

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

10. Debtor

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

11. 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.

12. Effective Interest Rate (EIR)

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

13. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

14. 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.

15. 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.

16. Financial Instrument

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

17. 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.

18. 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.

19. General Fund

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

20. Government Grants

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

21. Heritage Assets

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

22. Housing Revenue Account

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

23. Impairment

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

24. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

25. International Financial Reporting Standards (IFRS's)

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

26. Long Term Investments

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

27. Materiality

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

28. Minimum Revenue Provision (MRP)

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

29. Money Market Funds

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

30. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by Local Authorities and paid in specified shares to Central Government, Southampton City Council and Hampshire Fire and Rescue Authority.

31. Net Book Value

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

32. Net Expenditure

Total expenditure for a service less directly related income.

33. 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.

34. Non-Operational Assets

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

35. Operating Leases

A lease other than a finance lease (see 15).

36. Operational Assets

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

37. Post Balance Sheet Events

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

38. Private Finance Initiative (PFI)

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

39. Property, Plant and Equipment

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

40. Public Works Loans Board (PWLB)

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

41. Revaluation Reserve

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

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

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

43. Revenue Expenditure / Income

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

44. Stock

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;
- Finished goods.

45. Treasury Management

The management of the Council's debt and investment of surplus funds.

46. Useful Life

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

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

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

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

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2019_tcm63-396028.pdf

or can be obtained from the:

Service Director – Legal and Governance,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

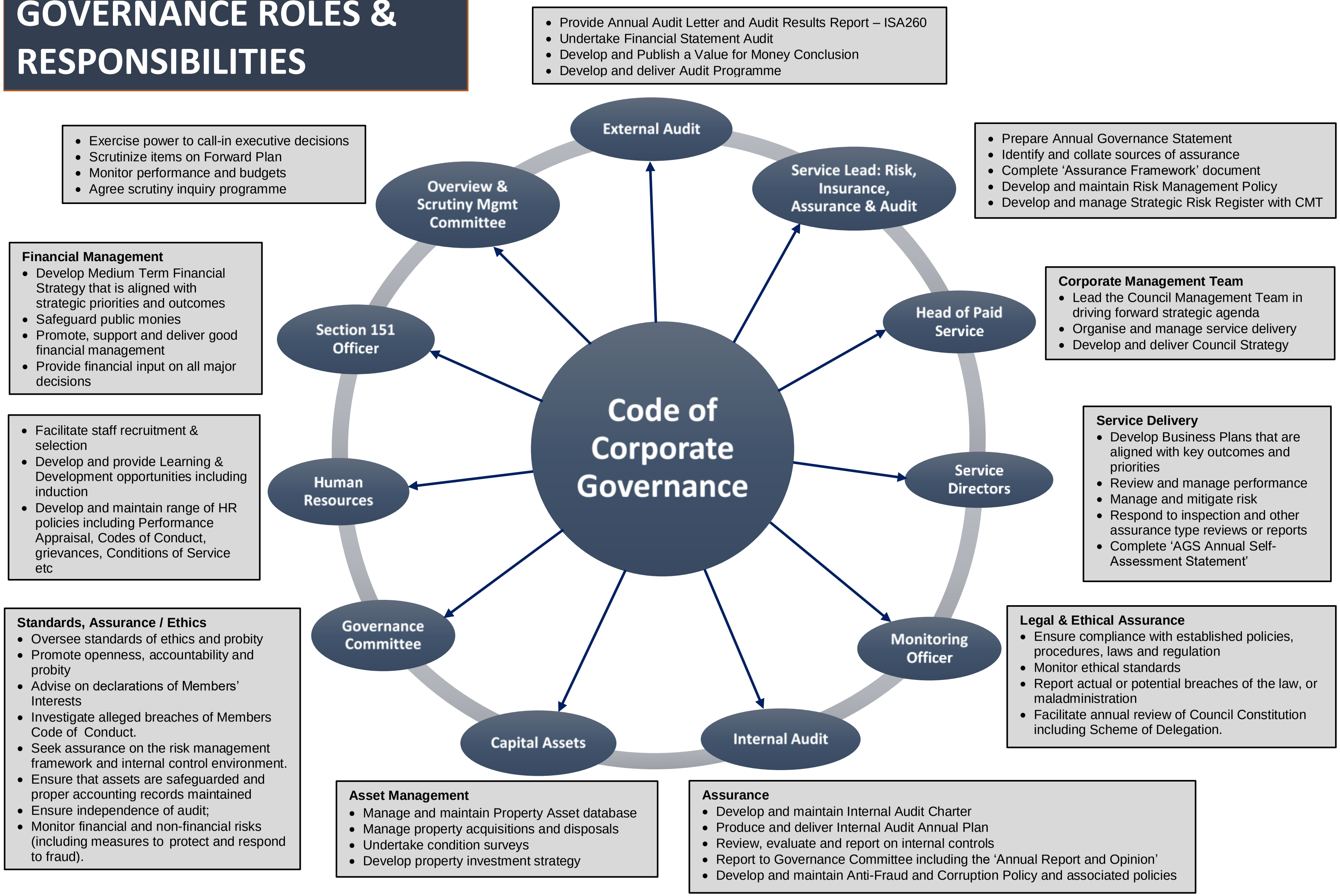
The governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

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

The governance framework has been in place at the council for the year ended 31st March 2019 and up to the date of approval of the statement of accounts.

GOVERNANCE ROLES & RESPONSIBILITIES



The Governance Framework

The fundamental function of good governance is to ensure that the Council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

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

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director: Legal and Governance is the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the Council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are crime, fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy'. This policy applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its Members and staff. It also covers contractor, supplier, partner, agents, intermediaries and service users. The Council also has in place an 'Anti-Money Laundering' policy which sets out both the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. The policy sets out the procedures which must be followed (for example reporting of suspicions of money laundering activity) to enable the Council and staff to comply with their legal obligations. All such policies are subject to periodic review.

Investigations and special reviews into suspected fraud or irregularities are overseen by an Investigation Steering Panel, comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

A formal Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' is in place which is published on the Council's website. This document, which sets out how customers may wish to share their experiences of using council services, is subject to annual review. In accordance with legislation there is a separate Children and Families Complaints Policy in place. Complaints about Members are dealt with under the Members' Code of Conduct complaints procedure.

B. Ensuring openness and comprehensive stakeholder engagement

The Council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The Council's website includes a 'Have your say' section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It has information on:

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

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the budget report for 2018-19. Information was made available in an easy to understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The 2016 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton Connect and the Police, Council and NHS, and was intended to capture and help understand the views of local residents. The survey exercise was repeated in the summer of 2018 when a telephone city survey of residents of was undertaken. This survey is used to monitor the success of key council strategies and to prioritise activity.

The Council has in place a ‘People’s Panel’ which now has a membership of over 2,000 people. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

A ‘Tenants Tell Us’ Group is also in place comprising Southampton social housing residents who take part in monthly online surveys to express their views on council housing services. Feedback is then used to influence how services are delivered, highlight issues, and help shape housing services across the city.

There is a strong focus on youth participation in the city with ‘Youth Forum Southampton’ providing opportunity for young people to influence how services are delivered, highlight issues that that need to be reviewed and to help shape public services for the community. The ‘Southampton Speak Up! - Children and Young People’s Participation Strategy 2016-2020’ is also intended to provide children and young people with ‘a voice and a choice’ explains how young people can get involved to help make the city a better place. Elections have also been held for Southampton’s own Member of Youth Parliament who is now in place.

The Councils ‘Children in Care Council’ groups provides an opportunity for those children in care to share their views and experiences with a view to improving things for themselves and others.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Strategy 2016-2020 (‘Council Strategy’) is a key document that sets out the council’s strategic vision until 2020 and reflects the on-going commitment to ensure that the Council works to put residents and the customers at the heart of everything that it does and to reflect the city’s diversity. The Council Strategy identifies the following four key outcomes that make up the vision:

In order to achieve these outcomes it is recognised that the council has to be a modern, sustainable organisation - which is the fifth outcome. For each outcome there are associated priorities and information on how success will be measured. In addition, against each outcome there is a ‘Leader’s Focus’ that reflects the council’s commitments to residents and customers. There is a ‘golden thread’, through the performance management framework and annual performance reviews, that makes clear links between objectives set for staff and the council's priority outcomes.

There are a number of key strategies, policies and plans which impact on direction of the Council and the day to day operations as follows:

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: 'Southampton a city of opportunity where everyone thrives'. Southampton Connect is an overarching strategic partnership body that has senior level representation from key agencies and sectors covering private, public and voluntary sectors within the City. This independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between twelve South Hampshire local authorities including the unitary authorities of Southampton, Portsmouth and Isle of Wight, and Hampshire County Council. PUSH is focused on developing, supporting and improving the economic performance of the sub-region and works collaboratively with partner agencies in the sub region as well as key Government Departments. PUSH proactively engages with business leaders, universities and the voluntary sector through the Solent LEP in support of activities that facilitate sustainable economic growth.

Solent LEP is a partnership organisation between the business community, the Further Education and Higher Education sector, the local authorities represented on PUSH and actively works together to secure a more prosperous and sustainable future for the Solent area. The Solent LEP is the key interface and lead for economic development in the region and has six priority areas for investment, namely: Skills, Business Support, Innovation, Infrastructure, Strategic Sectors and Inward Investment & International Trade.

The Council's Medium Term Financial Strategy ('MTFS') is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action.

An updated MTFS for the period 2019/20 to 2022/23 was approved by Full Council in February 2019.

The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's outcomes. The Strategy is based around 6 key aims:

- *To provide financial parameters within which budget and service planning should take place;*
- *To ensure the council sets a balanced and sustainable budget;*
- *To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources, ensuring services are defined on the basis of a clear alignment between priority and affordability;*
- *To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;*
- *To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and*
- *To ensure that the council's long term financial health and viability remain sound.*

The MTFS takes into account a number of other strategies, policies and plans that impact on the direction of the Council and the day to day operations including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties and improve the experience and outcomes for the service users. The Better Care Fund, which commenced in 2015, pools and aligns funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast.

Outcome Based Planning and Budgeting (OBPB) was introduced in 2017-18 and is the practice of developing budgets based on the relationship between funding and expected outcomes. OBPB is intended to provide clarity between the outcomes that we want to achieve and how we prioritise resource allocation. A further element has been introduced in the 2019/20 budget setting process to incorporate business academies, and begin to embed commercialisation across the Council. The business academy process is designed to help develop service business plans that are aligned to the key outcomes with the output fed into the budget process. OBPB gives certainty to residents, businesses and service users that service provision has been prioritised and funded for 2019/20, within a stable financial framework. The OBPB process will be further reviewed and refined in 2019/20 to ensure that the budget gap in 2020/21 and future years can be mitigated.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the ‘Decision Maker’, the decision or action required, why the report is recommended, alternative options considered together with a details (including consultation carried out) section. The template also includes separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council’s approved Policy Framework.

The Council’s Overview and Scrutiny Management Committee (“OSMC”) manages the council’s overview and scrutiny process which includes scrutinising items on the council’s Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme, monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the

Council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

All scrutiny meetings are held in public with opportunity for the public to ask questions or submit questions in writing to the committee or panels. Scrutiny inquiries can consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of Inquiry Panel members.

The Council has in place ‘Outcome Plans’ that are explicitly aligned with the Council’s key outcomes and areas of focus as set out in the Council Strategy. These plans identify the key challenges and opportunities associated with the delivery of the respective key priority and outcomes and how they can be addressed. Progress in respect of achieving key targets, for measures linked to the Council’s key outcomes and priorities, is subject to regular and robust review by both the Council Management Team. In addition, CMT receives a Monthly Operating Performance (‘MOP’) on a monthly basis. The MOP contains key service measures including:

- *Workforce statistics such as absence and staff turnover*
- *A number of financial metrics such as Council Tax collection and the MTFS budget gap*
- *Complaint numbers*
- *Ofsted ratings for schools*
- *Compliance to mandatory learning*

- *Data breaches and accidents / incidents*
- *Key results in the last month, messages, decisions and announcements*
- *Budget pressures arising from services are identified through regular monitoring of budgets and work plan with action plans to address any significant in year budget variances are agreed with the Council Management Team and subject to monthly progress / status reporting.*

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council has in place a Workforce Strategy which is intended to enable the Council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services.

The Council's Workforce Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- *Recognised as an employer of choice;*
- *A high performing workforce;*
- *Good management across the Council;*
- *Evidenced based decision making, planning and delivery;*
- *A highly motivated and engage workforce;*
- *Staff empowered to make decisions;*
- *An effective Member Development programme for councillors; and*
- *Demonstrable valuing of diversity and equality.*

The Workforce Strategy sits alongside the both the Medium Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall Council budget. It is used to inform resource allocation decisions, drive positive change and deliver agreed outcomes.

F. Managing risk and performance through robust internal control and strong public financial management

The Council has in place a 'Risk Management Policy 2017-2020' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas.

A key document is the Council's Strategic Risk Register which reflects the key strategic keys that have been identified as needing to be managed in order to support the delivery of the key outcomes and priorities. The Strategic Risk Register is developed and managed by the Council Management Team and is reviewed and updated on a quarterly basis. In addition, Cabinet Members are also provided with information in respect of the risks relevant to their respective portfolios.

The Council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management. The Committee receives regular update reports in respect of the delivery of the annual internal audit plan and the outcome of individual audit reviews. It also receives reports in respect of risk management and a range of reports relating to financial issues including receiving the draft Statement of Accounts.

Performance against the key indicators in the Council Strategy is actively monitored and published each quarter on the council website in the form of a Council Strategy Scorecard Summary. The Council Management Team also receives a quarterly scorecard which reports progress in achieving key targets for measures linked to the Council priorities. A Monthly Operating Performance (MOP) dashboard is reviewed by the Council Management Team on a monthly basis and contains key service measures as well as:

120

- *Workforce statistics such as absence and staff turnover*
- *Financial metrics such as Council Tax collection and the MTFS budget gap*
- *Complaint numbers*
- *Ofsted ratings for schools*
- *Compliance with mandatory learning*
- *Data breaches and accidents / incidents*
- *Textual information – Key results in the last month, messages, decisions and announcements*
- *Key improvement activity around Children's and Adult's Social Care*

All significant commercial partnership working arrangements also have a range of performance indicators which are used to verify and manage service performance. The Council is committed to achieving best value from its contracts and ensuring that goods, services and works are procured and contract managed in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, these outsourced contracts are managed by a Supplier Management Team or an Integrated Commissioning Unit which provide senior management interfaces between the Council and our partnership service providers

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2016)'. The CFO is professionally qualified and is a member of the Council Management Team and reports directly to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The Council is committed to openness and transparency and publishing as much Council data as it can in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access a range of information that is published in accordance with the Local Government Transparency Code (2015). This includes a link to both the current and previous Statement of Accounts together with relevant audit certificates. These documents shows how public money has been used.

The Council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the Council and by Council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance.

The Council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the Council's website.

The Council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money. The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published and highlights any significant risk exposure and control issues, including fraud and governance risks. Where an individual audit receives an overall level of 'No Assurance' then the exceptions are reported in their entirety to the Governance Committee along with the Service Director's comments. Where appropriate, the relevant Service Director may be required to attend a meeting to update the Committee regarding progress and actions;
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment. The Chief Internal Auditor's opinion for 2018-19 was that ***to be completed*** assurance can be provided that the framework of governance, risk management and control at Southampton City Council is effective;
- The Internal Audit Charter and delivery of the annual Internal Audit plan;
- The work of the Service Directors and Service Leads who have responsibility for the development and maintenance of the governance environment;
- The completion of 'Self-Assessment Statements' by Service Directors that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

Lack of consistent approach regarding formal succession planning for key posts and/or arrangements in place to ensure that there is an appropriate spread of skills in order to avoid over reliance on any particular individual.

Planned Action: *An important part of the 2019-25 corporate business planning process is the requirement for service areas to identify and consider future organisational development requirements. This is intended to capture the future required structure, skills mix and training together with consideration of the resilience of the service. This will inform the wider resourcing review of the council's leadership and the centrally led leadership development plans. The overall framework and plans will be in place during 2019 for commencement of key programmes. An additional outcome will be an increase in apprentice training (new starts and existing staff looking for higher level qualifications).*

Responsible Officer: Service Director Human Resources & Organisational Development
Target for completion: January 2020

2. Governance Issue

The 'annual performance appraisal' ("APR") process is still not fully embedded with some inconsistencies across service areas in terms of compliance with the process.

Although compliance has increased, the HR Log of completed staff APRs is incomplete as not all forms were submitted on-line.

Planned Action: *A more streamlined APR process is in place for 2019/2020 under a new HR Lead and informed by feedback on previous forms and process.*

Managers will be reminded of the importance of the APR process and the need to use the on-line "auto submit" tool or to provide confirmation of completion where on-line facilities are not part of the service provision (front-line). HR will oversee and report on compliance with the process to ensure that all staff have the correct supervision and annual appraisal meetings.

Responsible Officer: ***Service Director Human Resources & Organisational Development***

Target for completion: ***June 2019***

3. Governance Issue

The follow-up reviews undertaken by Internal Audit in respect of 'limited' or 'no assurance' audit reports issued in 2017-18 (and including any 'Priority Levels' that were assessed as being 'high risk' in other audit reports) has identified that, at the date of the follow up review, 58% of the 'agreed management actions' had not been progressed.

The foregoing is reflected in the Internal Audit Progress Reports that are presented to the Governance Committee throughout the year and in the Chief Internal Auditors Annual Report and Opinion.

Planned Action: *CMT Panel to be created to monitor and seek assurance from service areas that agreed management actions arising from such reports are being implemented within the agreed timescales. It is anticipated that the Panel with meet initially on a monthly basis and that the requirement for such a Panel will be time limited.*

Responsible Officer: ***Service Director Finance & Commercialisation***

Target for completion: ***June 2019***

4. Governance Issue

Whilst a number of actions have been implemented in order to improve officer compliance with the Council's procurement policies, and there is some evidence that they are having a positive effect, it is too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. It is also recognised that some further actions are planned for implementation in 2019.

Planned Action: *An internal audit review of contract framework and procurement will be undertaken in 2019 as part of the 2019/20 Internal Audit Annual plan. This audit review will look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies. The Supplier Management Team will also be carrying out ongoing monitoring and reporting to Governance Committee.*

Responsible Officer: : ***Service Director Finance & Commercialisation***

Target for completion: ***December 2019***

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

Signed

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Sandy Hopkins

Chief Executive

On behalf of Southampton City Council

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Councillor Christopher Hammond

Leader of the Council

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

125

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