

GOVERNANCE COMMITTEE

DOCUMENTS FOR THE MEMBERS ROOM

Monday, 25th July, 2016
at 5.00 pm

MEMBERS ROOM DOCUMENTS ATTACHED TO THE
LISTED REPORTS

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MEMBERS ROOM DOCUMENTS

5 FINANCIAL STATEMENTS FOR 2015/16 (Pages 1 - 116)

Friday, 15 July 2016

SERVICE DIRECTOR, LEGAL AND GOVERNANCE



SOUTHAMPTON
CITY COUNCIL

2015/16
FINANCIAL STATEMENTS



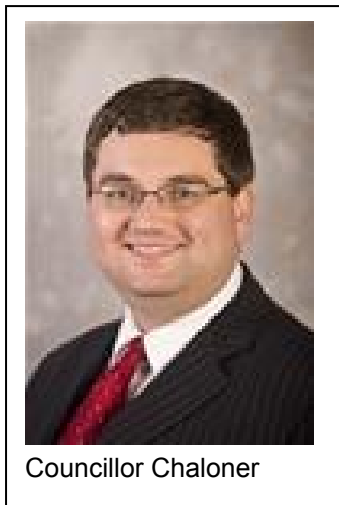


FINANCIAL STATEMENTS

	<u>Page</u>
<u>CONTENTS</u>	
1 Preface	1
2 Narrative Statement	2
3 Responsibilities for the Financial Statements	18
4 The Financial Statements	
Comprehensive Income and Expenditure Statement	19
Movement in Reserves Statement	20
Balance Sheet	21
Cash Flow Statement	22
Notes to the Core Financial Statements	23
5 Other Accounting Statements and Associated Notes	
Housing Revenue Account	88
Collection Fund	94
6 Glossary	98
7 Annual Governance Statement	102
8 Auditor's Report and Certificate – Included in Audited Accounts Only	114

PREFACE

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



Welcome to Southampton City Council's Statement of Accounts for 2015/16.

Southampton City Council has worked tirelessly throughout 2015/16 to bring investment to the City and improve the value for money for the services that we provide to our residents. Through Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council, we have developed our 'City Vision' where Southampton is a 'City of opportunity where everyone thrives'.

We have continued to work with and listen to our partners, residents and staff. In September 2015, the Council undertook a pre-budget consultation with residents about their priorities, so we could protect these areas wherever possible and focus budget proposals in areas of lesser priority. More recently, the biennial City Survey has been undertaken. The results are currently being consolidated and will be available by the end of May 2016.

Our approved capital programme of £375.73M (2015/16 – 2019/20) aims to bring jobs and investment to the City. In line with the Council's priorities, provision has been made for: primary and secondary school expansions, highways improvements, further significant investment in major city developments with £77M earmarked for Watermark West Quay and the New Southampton Arts Complex, and improvements in the quality of existing accommodation and to provide more affordable homes.

The revenue budget in 2015/16 delivered a net budget saving of £10.0M. This is in addition to the £45.8M saved in the previous three financial years. The Council continues to face significant financial challenges with a projected funding gap of £42.3M by 2019/20 as the role and shape of public services changes dramatically. This is not only because of the reality of deficit reduction but also fundamental changes in the needs, behaviours and expectations of residents, customers, clients and communities.

The national and local issues surrounding Adult Social Care and Safeguarding of Children have impacted on the level of spend for these services in 2015/16 and will continue to impact on the Council's budget. This has been reflected in the Council's Medium Term Financial Strategy (MTFS). Rising demand in both adult and children's social care remains one of the most significant risks to the sustainability of the Council and its financial position.

The scale of reductions in local government funding has meant that the Council has been forced to look at radical options for reducing expenditure across services, with significant changes to current organisational structures, systems and processes, and continues undertaking an extensive transformation programme. Looking forward, the Council will be implementing a process of outcome based commissioning and budgeting as part of changing the way it does business.

The Statement of Accounts this financial year has again been produced earlier than the statutory requirement which is a further enormous achievement and I would like to take this opportunity to thank all of our finance and audit staff for all their work over the year. This careful management of our finances enables us to make fully informed decisions about the appropriate use of Council resources and deliver the quality of services that residents have come to expect.

NARRATIVE STATEMENT

Message from the Service Director of Finance & Commercialisation



Mel Creighton

As part of the extensive Transformation Programme currently being undertaken by Southampton City Council we aim to produce and publish these accounts in advance of the statutory deadline. The advantages of delivering the statements earlier are many:

- We can inform stakeholders of the financial performance at the earliest opportunity;
- Staff can focus on delivering the next year's financial performance; and
- Staff can assist services in identifying and delivering the future year's savings and Transformation Programme.

The achievement of the early production of the statements is only possible by having sound financial management practices and a robust system of budget monitoring throughout the year. This has been demonstrated in 2015/16 with significant assurances being given following an audit of the Council's financial systems, processes and controls. This reflects the dedication of all finance staff, who have identified areas for step change improvements both in this financial year and future years, to continue on this improvement journey.

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are, by their nature, both technical and complex.

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.

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; and
5. Accounting Issues & Developments.

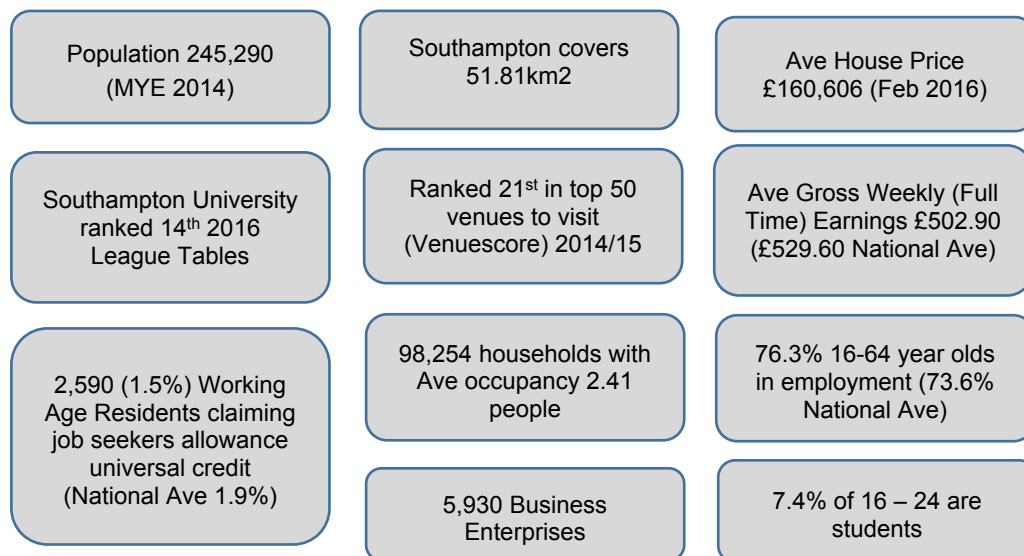
NARRATIVE STATEMENT

1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, strong position nationally for economic growth, excellent reputation for teaching and learning, 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.

Key Statistics



Source: NOMIS – Official Labour Market Statistics

Southampton City Strategy 2015-25

Bearing the above in mind Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the Council, has developed the City Strategy for 2015-25, with the goal of achieving prosperity for all. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and Safer Communities.

It also includes 4 cross cutting themes:

- Fostering City Pride and Community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

This strategy helps to shape the services the Council delivers, the next section describes how the Council operates to tackle these challenges.

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.

NARRATIVE STATEMENT

Political Structure

Southampton City Council is split into 16 wards each represented by 3 Councillors. The Political Structure in 2015/16 was as follows:

Labour 25

Conservative 20

Councillors Against Cuts 2

Independent 1

The recent elections have changed this political structure to

Labour 25

Conservative 19

Councillors Against Cuts 3

Independents 1

Strategic Leadership Team and Council Management Team

Supporting the work of the elected members is the Strategic Leadership Team and the Council's Management Team. A fundamental review of the Council's Management Structure was undertaken and implemented during the last 12 months. The current makeup of the Council's Strategic Leadership and Management Teams are detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2015/16.

The Strategic Leadership Team

Chief Executive – Dawn Baxendale

Chief Strategy Officer – Suki Sitaram

Chief Operating Officer – Mark Heath

Director of Transformation Implementation – Stephen Giacchino

Service Director - Finance & Commercialisation – Mel Creighton

The Council Management Team

The Strategic Leadership Team

Service Director - Transactions and Universal Services – Mitch Sanders

Service Director - Legal & Governance – Richard Ivory

Service Director - Intelligence, Insight & Communications (Acting) – Emma Lewis

Service Director - Housing, Adults & Communities (Interim) – Derek Law

Service Director - Children's & Families – Kim Drake

Service Director - Quality & Integration – Stephanie Ramsey

Service Director - Digital & Business Operations – Rob Harwood

Service Director - Growth (Acting) – Mike Harris

Service Director - Public Health (Acting) – Bob Coates

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

Southampton City Council Plan

The Council has also set out its priorities for the next three years in the Council Strategy 2014-17.

The Council has agreed 7 main priorities within the Council Strategy. These are:

- Jobs for Local People;
- Prevention and Early Intervention;
- Protecting Vulnerable People;

NARRATIVE STATEMENT

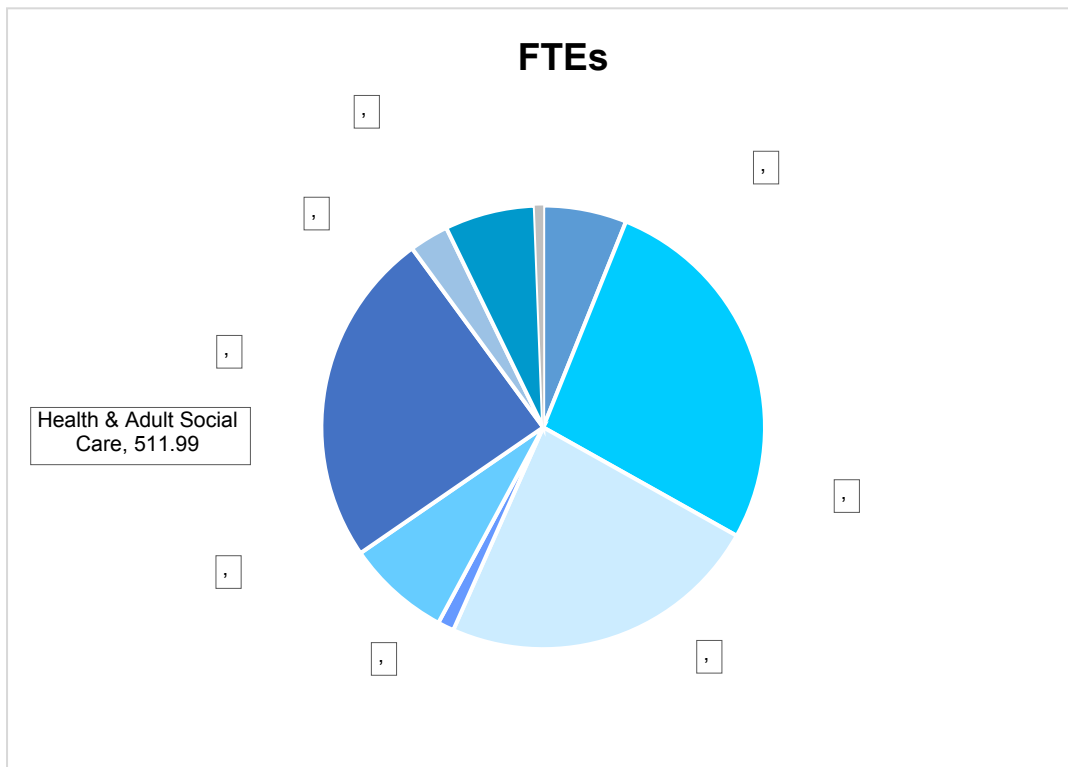
- Good Quality and Affordable Housing;
- Services for all;
- City Pride; and
- A Sustainable Council.

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different by 2017. The Council Strategy sets out that by 2017 we expect changes in terms of:

- Commissioning Services;
- Community Ownership;
- Better Customer Experiences;
- More flexible ways of working;
- A wide range of service delivery models;
- Listen and improve learning from our mistakes; and
- Increased focus on digital capabilities of customers.

Staffing

The Council employs circa 2,100 Full Time Equivalents to deliver these priorities. The following chart shows how these support the Council's services.



NARRATIVE STATEMENT

The Council's Performance

Indicator	14/15	15/16	Change	Preferred Direction of Travel	Stat Neighbour (Ave)	Variance	Eng. (Ave)	Variance	Comment	
Working-age client group - main benefit claimants (Out of Work Benefits)	9.3%	8.7%	▼	-0.6%	▼	11.5%	-2.8%	8.9%	-0.2%	Proportion of resident population aged 16-64 estimates
Job seeker	1.6%	1.1%	▼	-0.5%	▼	2.2%	-1.1%	1.5%	-0.4%	
Disability Living Allowance	1.1%	1.0%	▼	-0.1%	▼	1.1%	-0.1%	1.0%	0.0%	
Rate per 1000 head of 10 - 17 year old population receiving a custodial sentence	1.51	0.81	▼	-0.70	▼	0.63	0.18	0.46	0.35	
Children leaving care for permanence (Special Guardianship Order (SGO) or Adoption) (%)	33.0%	38.7%	▲	5.7%	▲	n/a	n/a	28%	5.0%	Statistical Neighbour Benchmarking not available - England BM 14/15
First time entrants into Youth Justice System (per 100,000 population of 10-17 year olds)	533	486	▼	-47	▼	484.5	48.5	402.2	131	Only 2014/15 benchmarking available
Pupils in Early Years Foundation Phase achieving good level of development (%)	66.1%	n/a	▲	4.3%	▲	64.8%	1.3%	66.3%	-0.2%	Annual data 15/16 not available until December
Young People who are Not in Education, Employment or Training (NEET) %	4.8%	4.8%	▶	0.0%	▼	6.1%	1.3%	4.6%	-0.2%	Only 14/15 Benchmarking available for England & Statistical Neighbours
ESA and incapacity benefits	6.0%	6.1%	▲	0.1%	▼	7.5%	-1.4%	6.0%	0.1%	
Carers Allowance	1.2%	1.4%	▲	0.2%	▼	1.8%	-0.4%	1.6%	-0.2%	

NARRATIVE STATEMENT

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The financial year began with the setting of the budget on 11th February 2015, when a balanced budget was set that included savings of £10.0M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting. A revised budget was then approved by Council on 10th February 2016 and represented the expected outturn position for the 2015/16 at that point in time.

The council incurs both revenue and capital expenditure. The revenue account (known as the General Fund) 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 2015/16

	Working Budget 2015/16 £000	Portfolio Outturn £000	Outturn Variance £000
Portfolios			
Communities, Culture & Leisure	6,116	5,889	227 F
Education and Children's Social Care	39,071	45,911	6,840 A
Environment & Transport	22,145	21,047	1,098 F
Finance	38,763	37,189	1,574 F
Health & Adult Social Care	58,084	61,580	3,496 A
Housing & Sustainability	2,690	2,553	137 F
Leader's Portfolio	12,243	9,598	2,644 F
Transformation	641	640	1 F
Sub-total for Portfolios	179,752	184,407	4,655 A
Levies & Contributions	632	566	66 F
Capital Asset Management	1,947	(159)	2,106 F
Other Expenditure & Income	4,503	(193)	4,696 F
Transfer to Provisions/Reserves In Year	5,333	4,897	436 F
Transfer to Reserves - Year End Surplus	0	3,250	3,250 A
Net Revenue Expenditure	192,168	192,768	600 A
Funded By:			
Addition to / (Draw From) Balances	(7,130)	(7,130)	0
Council Tax	(77,270)	(77,269)	1 A
Non-Specific Government Grants & Other Funding	(52,058)	(52,472)	414 F
Business Rates	(50,135)	(50,322)	187 F
Council Tax Collection Fund (Surplus) / Deficit	(3,206)	(3,206)	0
Business Rates Collection Fund (Surplus)/Deficit	(2,369)	(2,369)	0
Total Funding	(192,168)	(192,768)	600 F
(SURPLUS)/DEFICIT	0	0	0.0 F

NARRATIVE STATEMENT

Since the Council set its budget in February 2015, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council including:

- The individual service areas worked with finance and transformation to draw up recovery action plans to minimise the amount of pressure being carried forward into 2016/17.
- Vacancy Freeze – all directorates were instructed to hold posts vacant with minimal exceptions being agreed by Directors for critical posts.
- Non Essential Spend – all directorates were instructed to cease spending on any non-essential non pay expenditure.

Any posts which had been held vacant and not covered by temporary arrangements for over 6 months were deleted.

The outturn for the council was a contribution to general reserves of £3.25M.

There have been significant pressures in both the Children's Services and Adults Portfolios, due to increasing demand for services which has been offset by the release of the Council's risk fund which is held to meet the costs of unforeseen changes in costs and demand for services.

It should be noted that the comprehensive income and expenditure account is required to analyse service income and expenditure as specified by the Service Reporting Code of Practice (SeRCOP). This differs from the above statement as decisions regarding resource allocation are taken by Cabinet and Council on the basis of budget reports analysed by Service Portfolios. Note 8 of the accounts serves to reconcile the financial information reported for management purposes to that reported in the Comprehensive Income and Expenditure Statement to increase transparency and improve the understanding of stakeholders.

Portfolio expenditure (excluding other items) is analysed below by category to explain further where the money went.

	Working Budget 2015/16 £000	Portfolio Outturn 2015/16 £000	Outturn Variance £000
Salaries, Wages & Other Employee Costs	90,838	94,754	3,916 A
Premises Costs	14,445	9,613	4,832 F
Transportation Costs	3,968	3,904	63 F
Supplies & Services	67,868	77,523	9,655 A
Internal Charges	5,195	6,344	1,149 A
Other Direct Costs (Includes School Allocations)	243,016	247,703	4,687 A
Total Expenditure	425,330	439,842	14,512 A
Internal Income	(23,537)	(23,212)	324 A
Fees, Charges & Rents	(44,496)	(49,094)	4,598 F
Grants / Contributions	(177,545)	(183,129)	5,584 F
Total Net Expenditure	179,752	184,407	4,655 A

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 89 to 94.

NARRATIVE STATEMENT

HRA Outturn Position 2015/16

The table below shows the HRA outturn position

	Working Budget 2015/16 £000	Portfolio Outturn £000	Outturn Variance £000
Dwelling Rents	73,984	73,397	587 A
Other Rents	1,204	1,128	76 A
Total Rental Income	75,188	74,525	663 A
Service Charge Income from Tenants	1,594	1,591	3 A
Service Charge Income from Leaseholders	578	974	396 F
Interest Received	30	24	6 A
Total Income	77,390	77,114	276 A
Responsive Repairs	11,029	13,495	2,466 A
Programmed Repairs	5,531	5,252	279 F
Total Repairs	16,560	18,747	2,187 A
Rents Payable	200	(39)	239 F
Debt Management	70	38	32 F
Supervision & Management	20,982	20,696	286 F
Capital financing charges	10,974	10,239	735 F
Depreciation	18,977	19,901	924 A
Direct Revenue Financing	9,366	7,532	1,834 F
Total Expenditure	77,129	77,114	15 F
(Surplus) / Deficit for Year	(261)	0	261 A

The budget for the year was set at £0.26M surplus with a breakeven actual outturn position for the year. The HRA working balance at 31 March 2016 remains at £2M.

CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £105.51M in total for the General Fund and HRA. Final capital spend for the year was £29.62M less than the budget at £75.89M, including slippage/rephasing of £30.20M. This will be reflected in the post outturn update of the overall programme.

NARRATIVE STATEMENT

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

Service	Approved Budget (£M)	Expenditure (£M)	Variance (£M)
Education & Children's Social Care	8.19	8.96	0.77
Leaders	14.89	7.43	(7.46)
Communities, Culture & Leisure	1.38	1.20	(0.18)
Transport	18.99	15.13	(3.87)
City Services	1.02	0.76	(0.26)
Health & Adult Social Care	0.35	0.25	(0.11)
Housing & Sustainability	3.17	2.06	(1.11)
Finance	1.40	1.20	(0.20)
Transformation	0.10	0.09	(0.01)
Total General Fund Programme	49.50	37.07	(12.43)
Housing Revenue Account	56.01	38.82	(17.19)
Total Capital Programme	105.51	75.89	(29.62)

The final spend for the year was £29.62M lower than the budget. Of this, £30.20M was due to slippage/rephasing on schemes, which will be spent in 2016/17 predominantly incurred on the following schemes:

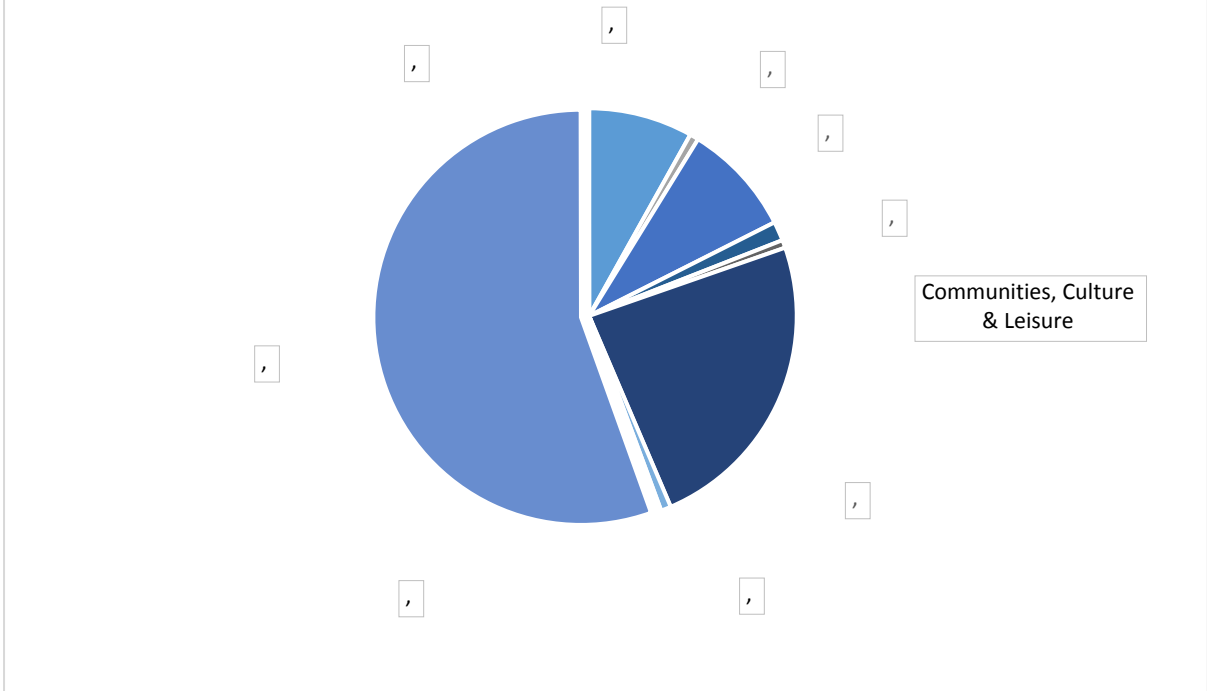
Green Deal Communities Engagement	£0.45M
Estate Regeneration	£1.65M
Housing - New Build	£1.45M
Lift Refurbishment	£1.30M
Roof Replacement	£1.53M
HRA Area Programmes	£0.40M
Communal Area Programmes	£0.61M
HRA Other Programmes	£0.66M
Energy Savings Programme	£7.34M

5 year Capital Programme

The current approved 5 year capital programme which totals £375.73M, including approvals under delegated powers, 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 in 2015/16.

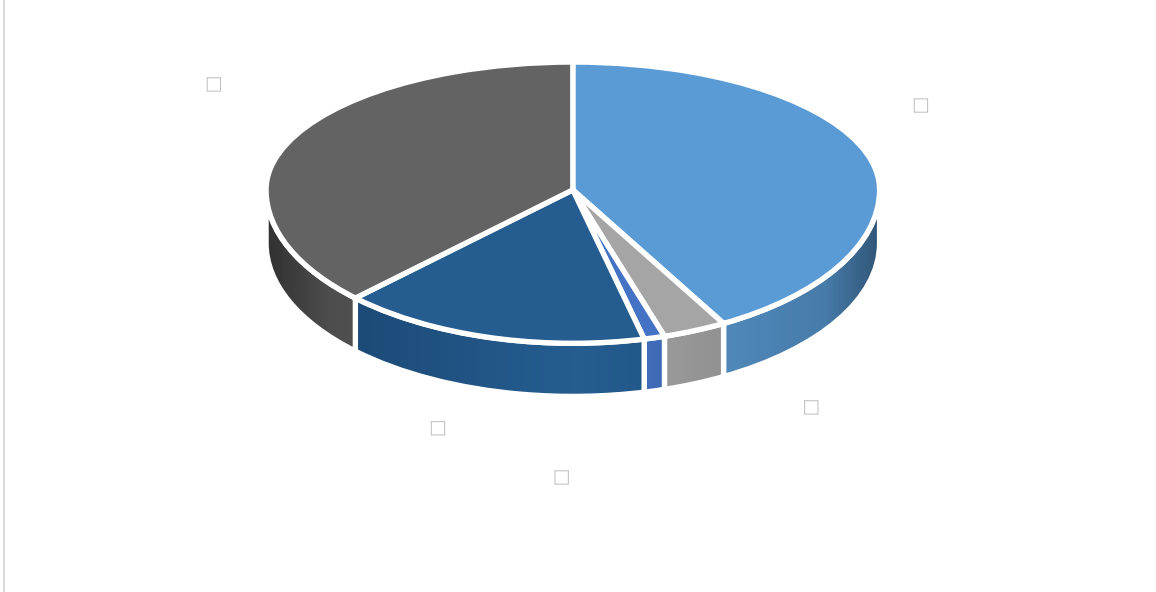
NARRATIVE STATEMENT

Capital Expenditure - 5 Year Programme 2015/16 - 2019/20



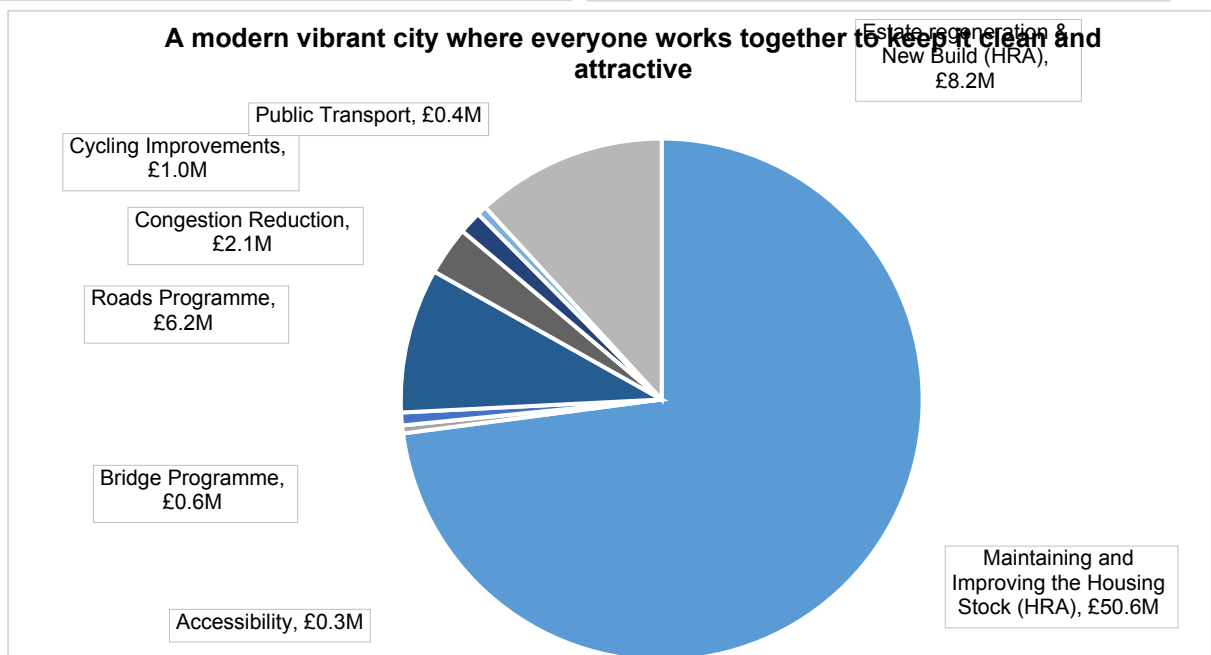
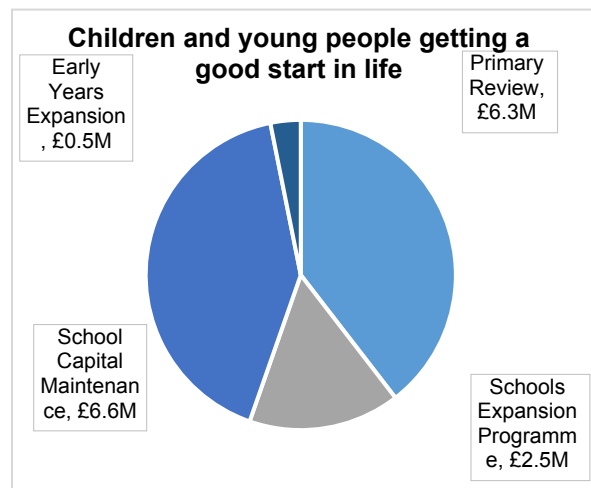
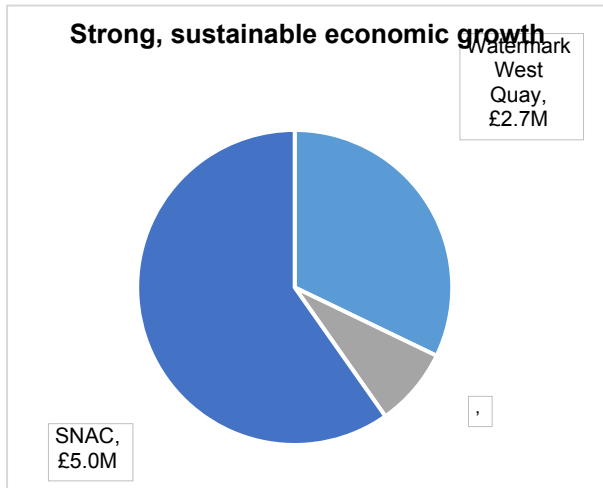
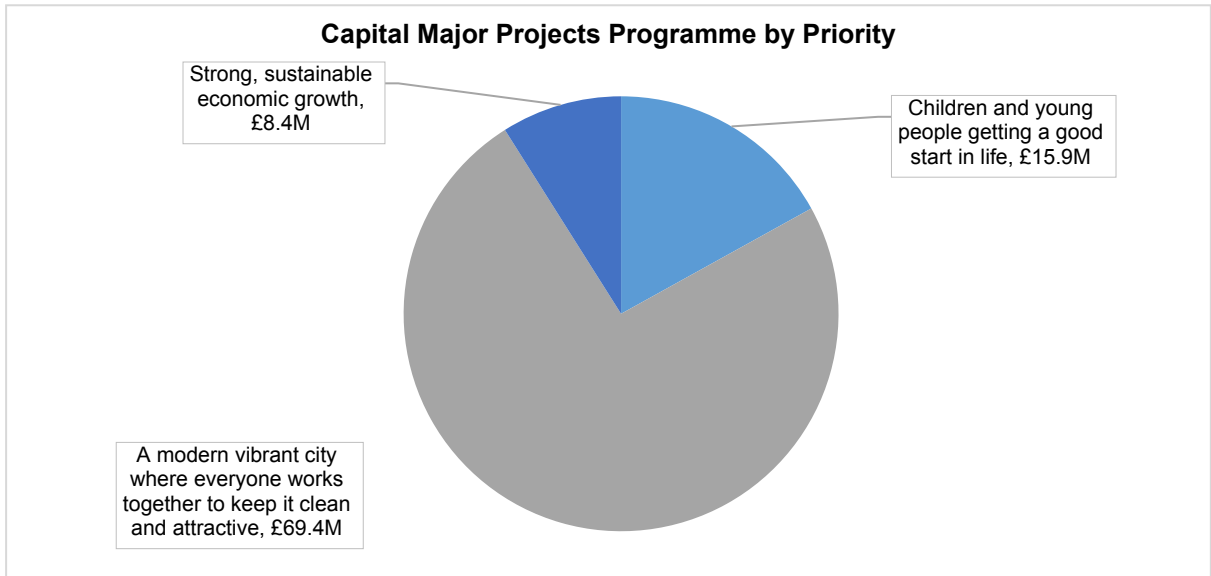
Funded by:

Capital Funding - 5 Year Programme 2015/16 - 2019/20



NARRATIVE STATEMENT

The major priorities of the capital programme for 2015/16 to 2019/20 are shown in the chart below.

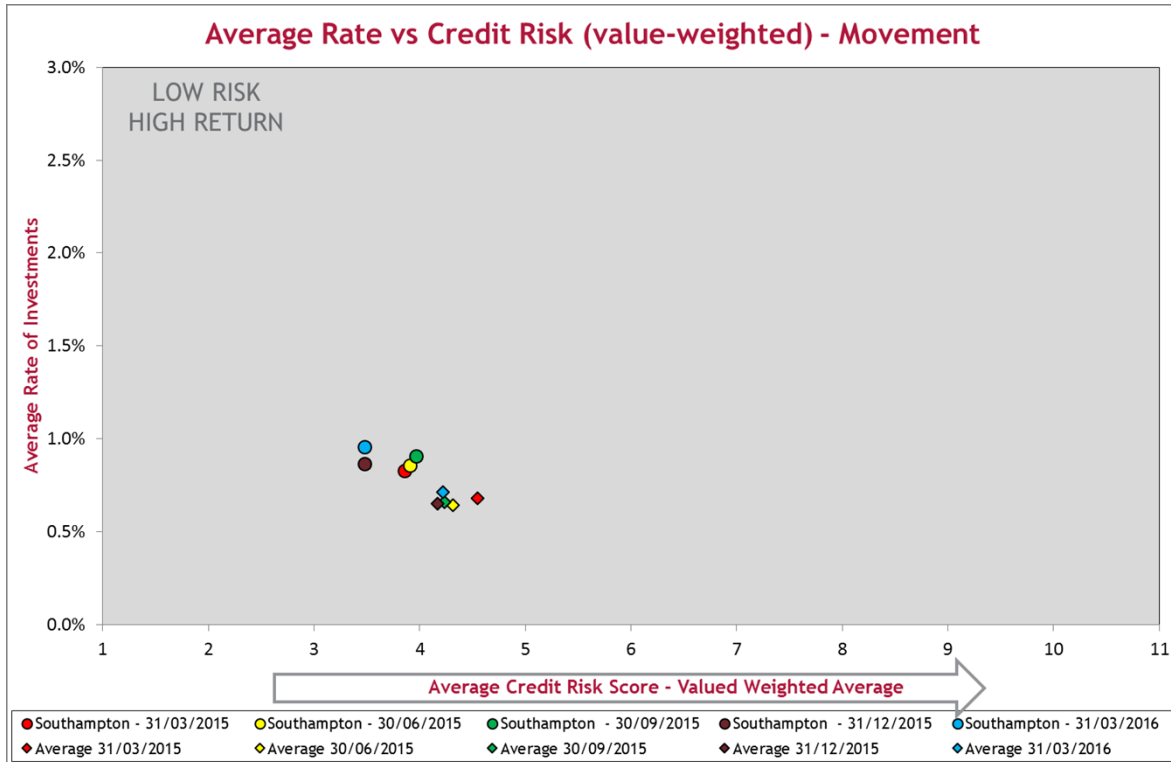


NARRATIVE STATEMENT

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. In 2015/16 the Council has continued to diversify into corporate and covered bonds. In doing so, we have been able to improve our overall level of investment returns whilst lower our risk exposure. The following graph demonstrates our improved position from 12 months ago.



RESERVES AND BALANCES

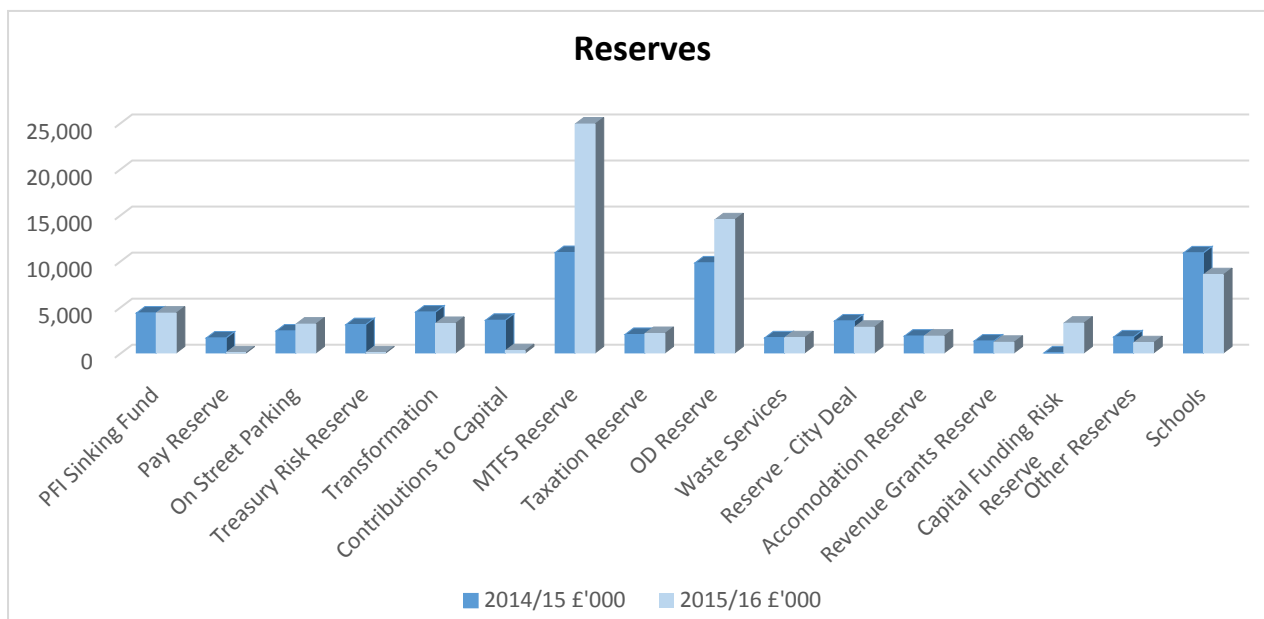
The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

We aim to identify, within the Medium Term Financial Strategy (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 resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2015/16 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk, detailed in the following section, resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.

The graph below highlights the changes in the value of reserves between the 31st March 2015 and 31st March 2016.

NARRATIVE STATEMENT



The Council's approved minimum level for the General Fund Balance is £5.5M, as recommended by the Chief Financial Officer following an assessment of risk. In the context of gross spend in excess of £500M this provides a relatively small cushion to enable the Council to cover the risk of unexpected events leading to significant unplanned expenditure. The balance as at 31 March 2016 of £12.8M therefore exceeds the approved minimum level, but is in line with the coming year's budget requirement.

PRINCIPAL RISKS AND UNCERTAINTY

The Council has in place a Strategic Risk Register which captures, in one place, those 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, which is subject to regular review by the Council Management Team, is intended to be used as a management tool in terms of ensuring that key risks are both understood and managed to an acceptable level. Each risk is 'scored' in terms of the likelihood of occurrence and potential impact.

The assessment of 'impact' reflects a blended score that takes into account 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'.

No	Strategic Risk - Description	Likelihood	Impact
1	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
2	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
3	Failure to safeguard vulnerable adults resulting in a preventable incident.	Possible	Extreme
4	Failure to safeguard children resulting in a preventable incident.	Possible	Extreme
5	Failure to meet our health and safety responsibilities.	Possible	Significant
6	Failure to ensure the Council's information is held and protected in line with Information Governance policies and procedures.	Possible	Significant

NARRATIVE STATEMENT

7	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation of welfare reforms.	Possible	Significant
8	Service partners and/or suppliers may not be sufficiently flexible or aligned with the council's future service delivery requirements and operating model.	Possible	Significant
9	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.	Likely	Major

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 31st March 2016. 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
Responsibilities for the Financial Statements	18
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Comprehensive Income and Expenditure Statement (CIES)	19
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
Movement in Reserves Statement (MiRS)	20
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.	
Balance Sheet	21
The Balance Sheet shows the value as at the 31 st March 2016 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.	
Cash Flow Statement	22
This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as;	
<ul style="list-style-type: none"> • Operating – these gives an indication of the extent to which Services provided by the council are funded by way of taxation, grant income or payments from recipients of services; • Investing – how much income has been generated from resources held to contribute to future service delivery: and 	

NARRATIVE STATEMENT

- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Financial Statements (including Accounting Policies)	23 – 87
Housing Revenue Account (HRA)	88 – 93
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
Collection Fund	94 – 97
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
Glossary	98 – 101
Annual Governance Statement	102 - 113
Auditor's Report and Certificate	114

5. ACCOUNTING ISSUES AND DEVELOPMENTS

Pension Fund Deficit

The deficit on the Pension Fund, as at 31 March 2016, has decreased from £390.7M to £366.8M see note 34 for further details

Sale of Higher Value Vacant Council Homes

On 13th October 2015 the Government published the Housing and Planning Bill 2015/16. This bill sets out a number of proposed changes to Housing legislation which will impact on the current delivery of services to tenants and the resources required to do so. One of these proposed changes relates to the sale of higher value vacant council homes. The Bill will enable the government to set out a definition of 'higher value' homes and will create a duty on local authorities to consider selling homes that meet this definition when they become vacant. The Government intends to use the receipts from these sales to fund the extension of the right to buy scheme to housing association tenants and to create a Brownfield Development fund. The Bill will also allow the government to estimate the amount of money it would expect each individual authority to receive, in each financial year, from sales of higher value homes. Authorities will then be required to pay this amount to the Government. Once full details are published we will be able to review the impact on the HRA Business Plan both in the potential number of homes that will be required to be sold and the amount due to be paid to the Government under the annual calculation.

Strategic Services Partnership - Capita

As part of the overall transformation programme, the Council has been working with our major contract partners on new and innovative approaches to delivering services in the most cost effective and efficient way. Our strategic services partner, Capita, currently delivers our IT, HR (including Learning and Development and payroll services), Customer Services, Procurement and Property Services. A full review of this contract has been undertaken, identifying areas where we believe Capita can provide additional support and other areas where changing circumstances mean that those services may be better delivered in house. In addition to these changes we have sought to re-focus some of the support from Capita particularly in relation to our emerging digital programme and Council wide procurement.

The results of this work were presented to Members at Full Council on Wednesday 16th March 2016, and Members agreed that Property and the strategic element of HR will be brought back into the Council. These services will be reintegrated into the Council during 2016/17.

Development Company

Cabinet approved at its meeting in April 2015 to undertake the necessary works to set up a wholly owned Development Company (DevCo) which could enable the Council to make maximum use of its assets. Recognising that the Council has a number of sites across the city, both in the city centre and surrounding areas of Council owned accommodation which have the potential to deliver more homes for the city and promote economic growth.

NARRATIVE STATEMENT

The city's estate regeneration programme is designed to create successful communities to ensure everyone in the city will benefit from this economic growth. The creation of a DevCo would afford the Council new opportunities. One of these will be to increase the supply of new housing across the city. Whilst initially considered in relation to the provision of additional homes in the City, consideration is being given to ensuring that the DevCo is adaptable to deal with all development options.

The structure of the DevCo, governance and financing is currently being finalised but is expected to be in place during 2016/17 to provide an alternative delivery model for development in the City.

Property Investment Fund

Local Authorities face a difficult financial climate with ever decreasing funding from Central Government. This has led to Councils looking at innovative ways to generate regular revenue streams so they can reduce reliance on Central Government funding.

Many Authorities are now acting to strengthen their funding base and reduce reliance on Government grants by building asset portfolios that provide a commercial return and have made the decision to expand their investment property portfolio, which provides an important and substantial revenue income stream in order to generate a higher level of income by acquiring additional properties. The 2016/17 revenue estimates assume additional net income of £1M from this activity. In order to achieve this additional investment, funding is required. At its meeting in February 2016, Council approved the addition of a £65M scheme to the Leaders Portfolio capital programme to facilitate the creation of a Property Investment Fund (PIF). The Business Case and Investment Strategy has now been agreed and the first investments will be undertaken in 2016/17.

Schools National Funding Formula

Schools funding is provided by way of the Dedicated Schools Grant (DSG) and is made up of 3 elements, Schools Block, Early Years Block and High Needs Block. On the 7th March 2016 the Department for Education (DfE) launched its latest plans on introducing a National Funding Formula for schools. Consultation will be undertaken in 2 stages; stage 1 consulted on the principles and building blocks of the new funding formula with stage 2 bringing in calculations in order to present potential funding. At this stage, it is not possible to accurately assess the impact the proposed changes will have on the total available schools funding for the Council or how this funding will be distributed between phases or types of schools and academies.

Consultation to date has focused on the Schools and High Needs Blocks. From 2016/17, high needs funding will be allocated on the basis of a new formula. The impact of any changes in funding as a result will be monitored in year along with the overall availability of the DSG.

Outcome Based Budgeting

In 2016/17, the Council will move to an outcomes based commissioning approach to determine the best way of delivering services, and the aims of the budgeting process will follow suit to deliver an outcomes based budget. The Council will review its current expenditure on an outcomes basis and from this baseline point will determine what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council that Officer is the Section 151(S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve 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 CFO has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- 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; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Financial Statements presents the true and fair position of Southampton City Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

Signed **M Creighton** _____ Date 25 July 2016
Section 151 Officer

4. Approval of the Accounts

I certify that the Financial Statements have been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2011 and is authorised for issue.

Signed **S Barnes-Andrews** _____ Date 25 July 2016
Chair, Governance Committee

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

<u>2014/15</u>				<u>2015/16</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
£000	£000	£000		Notes	£000	£000	
88,655	(19,915)	68,740	Adult Social Care		89,110	(22,838)	66,272
8,657	(2,558)	6,099	Central Services to the Public		8,468	(2,564)	5,904
3,656	(415)	3,241	Corporate and Democratic Core		3,621	(408)	3,213
5,651	(1,876)	3,775	Non Distributable Costs		6,210	(2,051)	4,159
219,461	(158,707)	60,754	Children's and Education Services		217,523	(156,102)	61,421
19,102	(4,736)	14,366	Cultural and Related Services		20,814	(4,724)	16,090
28,246	(9,527)	18,719	Environment and Regulatory Services		28,436	(10,311)	18,125
11,489	(5,496)	5,993	Planning and Development Services		11,651	(6,503)	5,148
15,557	(15,418)	139	Public Health		16,631	(16,327)	304
25,639	(15,554)	10,085	Highways and Transport Services		25,234	(16,175)	9,059
61,735	(77,840)	(16,105)	Local Authority Housing		63,280	(81,400)	(18,120)
(11,433)		(11,433)	Local Authority Housing-impairment loss/(gain) on dwellings		(53,865)		(53,865)
130,715	(120,277)	10,438	Other Housing Services		130,516	(121,088)	9,428
			Exceptional Items				
27,188		27,188	Impairment on General Fund Assets	6	58,735		58,735
634,318	(432,319)	201,999	Cost of Services	8	626,364	(440,491)	185,873
		11,244	Loss / (Gain) on the disposal of Non Current Assets	12c			(4,930)
		444	Contributions to Other Local Public Bodies				566
		1,060	Contributions of Housing Capital Receipts to Government Pool				1,218
		12,748	Other Operating Expenditure				(3,146)
		(986)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14			319
		15,592	Interest payable and similar charges	11			15,171
		(1,572)	Interest and Investment Income	11			(1,269)
		14,490	Net interest on the defined benefit liability (asset)	34b			12,160
		27,524	Financing, and Investment Income & Expenditure				26,381
		(75,813)	Council Tax Income				(79,514)
		(50,052)	Non - Domestic Rates Redistribution	38			(51,484)
		(73,533)	General Government Grants	37c			(54,680)
		(26,176)	Capital Grants and Contributions	37b			(22,358)
		(225,574)	Taxation and Non-Specific Grant Income				(208,036)
		16,697	Deficit / (Surplus) on the Provision of Services	8			1,072
		(10,203)	Surplus or deficit on revaluation of non current assets	22a			(83,327)
		1,116	Impairment losses on non-current assets charged to the revaluation reserve	22a			32,642
		(572)	Surplus or deficit on revaluation of available for sale financial assets				(300)
		45,600	Remeasurements of the net defined benefit liability (asset)	34g			(36,070)
		35,941	Other Comprehensive Income and Expenditure				(87,055)
		52,638	Total Comprehensive Income and Expenditure				(85,983)

THE FINANCIAL STATEMENTS

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserve £000
Balance at 1 April 2014	(53,409)	(28,587)	(2,278)	(6,391)	0	(7,222)	(97,887)	(739,751)	(837,638)
Movement in Reserves during 2014/15									
Surplus on provision of services (accounting basis)	41,522		(24,825)			0	16,697		16,697
Other comprehensive Income and Expenditure							0	35,941	35,941
Total Comprehensive Income and Expenditure	41,522	0	(24,825)	0	0	0	16,697	35,941	52,638
Adjustments between accounting basis and funding basis under regulations (note 10)	(42,278)		25,104	(2,731)		314	(19,591)	19,591	0
Net Increase before Transfers to Earmarked Reserves	(756)	0	279	(2,731)	0	314	(2,894)	55,532	52,638
Transfers to / (from) earmarked reserves (note 9)	34,228	(34,225)	(1)				2	(2)	0
(Increase) / Decrease in Year	33,472	(34,225)	278	(2,731)	0	314	(2,892)	55,530	52,638
Balance at 31 March 2015	(19,937)	(62,812)	(2,000)	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserve £000
Balance at 1 April 2015	(19,937)	(62,812)	(2,000)	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)
Movement in Reserves during 2015/16									
Surplus on provision of services (accounting basis)	70,887		(69,815)				1,072		1,072
Other comprehensive Income and Expenditure							0	(87,055)	(87,055)
Total Comprehensive Income and Expenditure	70,887	0	(69,815)	0	0	0	1,072	(87,055)	(85,983)
Adjustments between accounting basis and funding basis under regulations (note 10)	(73,370)		69,815	(4,474)		(3,685)	(11,714)	11,714	0
Net Increase before Transfers to Earmarked Reserves	(2,483)	0	0	(4,474)	0	(3,685)	(10,642)	(75,341)	(85,983)
Transfers to / (from) earmarked reserves (note 9)	9,614	(9,613)					1	(1)	0
(Increase) / Decrease in Year	7,131	(9,613)	0	(4,474)	0	(3,685)	(10,641)	(75,342)	(85,983)
Balance at 31 March 2016	(12,806)	(72,425)	(2,000)	(13,596)	0	(10,593)	(111,420)	(759,563)	(870,983)

THE FINANCIAL STATEMENTS

Balance Sheet

<u>31 March 2015</u>		<u>31 March 2016</u>		
£000		Notes	£000	£000
1,190,023	Property Plant & Equipment	12	1,261,296	
196,386	Heritage Assets	13	190,103	
101,426	Investment Property	14	95,179	
4,692	Intangible Assets	15	4,529	
22,839	Long Term Investments	17b	23,531	
5,004	Long Term Debtors	18a	1,617	
1,520,370	Non Current Assets			1,576,255
14,293	Short Term Investments	17b	25,986	
2,571	Assets held for Sale	16	2,639	
565	Stock (Inventories)		703	
60,755	Short Term Debtors	18b	61,073	
(17,376)	- Impairment of Short Term Debtors	18b	(17,888)	
54,965	Cash & Cash Equivalents	19	39,188	
115,773	Current Assets			111,701
(7,709)	Cash & Cash Equivalents	19	(3,224)	
(626)	Deferred Liabilities	17b	(364)	
(22,067)	Short Term Borrowing	17b	(29,985)	
(78,670)	Short Term Creditors	20	(76,623)	
(8,685)	Provisions	21	(7,972)	
(117,757)	Current Liabilities			(118,168)
(64,795)	Long Term Creditors	17b	(62,263)	
(9,127)	Provisions	21	(9,449)	
(231,805)	Long Term Borrowing	17b	(220,300)	
	Other Long Term Liabilities			
(15,019)	- Deferred Liabilities	17b	(14,917)	
(8)	- Deferred Capital Balances		(8)	
(21,932)	- Cap. Grants & Conds Receipts in Advance	37a	(25,028)	
(390,700)	- Pension Fund Liability	34c	(366,840)	
(733,386)	Long Term Liabilities			(698,805)
785,000	Net Assets			870,983
	Useable Reserves			
(9,122)	Useable Capital Receipts Reserve	10	(13,596)	
(6,908)	Cap. Grants & Conds Unapplied	10	(10,593)	
(62,812)	Earmarked Revenue Reserves	10	(72,425)	
	Revenue Balances			
(19,937)	General Fund	10	(12,806)	
(2,000)	Housing Revenue Account	10	(2,000)	
(100,779)				(111,420)
	Unuseable Reserves			
(297,538)	Revaluation Reserves	22a	(344,272)	
(959)	Available-for-Sale Financial Instruments Reserve		(1,259)	
(770,704)	Capital Adjustment Account	22b	(774,153)	
392	Financial Instruments Adjustment Account		346	
390,700	Pension Reserve	22c	366,840	
(5,635)	Collection Fund Adjustment Account	22d	(5,675)	
2,285	Accumulated Absences Account	22e	1,372	
(2,762)	Deferred Capital Receipts Reserve	22f	(2,762)	
(684,221)				(759,563)
(785,000)				(870,983)

Signed **S Barnes-Andrews** _____
Chair, Governance Committee

Date 25 July 2016

THE FINANCIAL STATEMENTS

Cash Flow Statement

<u>2014/15</u> <u>£000</u>		<u>Notes</u>	<u>2015/16</u> <u>£000</u>
(16,697)	Net surplus or (deficit) on the provision of services		(1,072)
112,544	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	70,742
(50,118)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(42,798)
45,729	Net Cash Flows From Operating Activities		26,872
(29,478)	Net Cash flows from Investing Activities	23 c)	(32,902)
(10,942)	Net Cash flows from Financing Activities	23 d)	(5,262)
5,309	Net Increase / (Decrease) in Cash and Cash Equivalents		(11,292)
41,947	Cash and cash equivalents at the beginning of the reporting period	23 e)	47,256
47,256	Cash and Cash Equivalents at the End of the Reporting Period	23 e)	35,964

NOTES TO THE CORE FINANCIAL STATEMENTS

Index of Notes to the Core Financial Statements

Note	Descriptions	Page Number
1	Accounting Policies	25
2	Accounting Standards that have been issued but not yet adopted	38
3	Critical judgements in applying accounting policies	38
4	Assumptions made about the future and other major sources of estimation uncertainty	40
5	Prior Period Adjustments	42
6	Exceptional Items	42
7	Events after the reporting period	42
8	Amounts reported for resource allocation decisions	42
9	Transfers to/from Earmarked Reserves	45
10	Adjustments between accounting basis and funding basis under regulations	46
11	Interest Payable and Receivable	49
12	Property Plant & Equipment	49
13	Heritage Assets	51
14	Investment Properties	52
15	Intangible Assets	53
16	Assets Held for Sale	53
17	Financial Instruments	54
18	Debtors	61
19	Cash and Cash Equivalents	62
20	Creditors	63
21	Provisions	63
22	Unusable Reserves	65
23	Notes to Cash Flow Statement	68
24	Agency Services	69
25	Members' Allowances	69
26	Officers' Remuneration	70
27	External Audit Costs	73
28	Dedicated Schools Grant	73
29	Related Parties	74
30	Capital Expenditure	75
31	Leases	75
32	PFI and Similar Contracts	76
33	Pension Schemes Accounted for as Defined Contribution	79
34	Defined Benefit Pension Schemes	79

NOTES TO THE CORE FINANCIAL STATEMENTS

Note	Descriptions	Page Number
35	Contingent Liabilities/Assets	82
36	Interest in Companies	83
37	Capital Grants & Contributions Receipts in Advance	83
38	Non-Domestic Rates Redistribution	84
39	Pooled Budgets	84
40	Trust and Other Funds	86

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) Basis of Preparation

The Accounts and Audit Regulations 2015 require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2015/16, these proper accounting practices principally comprise:

- the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code)
- Update to the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (Code Update)
- the Service Reporting Code of Practice 2015/16 (SeRCOP)
- the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146, as amended) (the 2003 Regs)

The Statement of Accounts has been prepared using the going concern and accruals bases. The historical cost convention has been applied, modified by the valuation of the following material categories of non-current assets and financial instruments:

Class of Assets	Valuation Basis
Property, Plant, and Equipment: Dwellings	Existing use value for social housing Dwellings are valued using market prices for comparable properties adjusted to reflect the occupancy under secure tenancies
Property, Plant, and Equipment: Other Land and Buildings	Existing use value Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost.
Property, Plant, and Equipment: Surplus Assets	Fair value
Investment Properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pension Assets	Fair value

b) Adjustments Between Accounting Basis and Funding Basis

The resources available to the Council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations). Where the statutory provisions differ from the accruals basis used in the Comprehensive Income and Expenditure Statement, adjustments to the accounting treatment are made in the Movement in Reserves Statement so that usable reserves reflect the funding available at the year-end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant, and Equipment	Depreciation and revaluation/ impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Intangible Assets	Amortisation and impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Investment Properties	Movements in fair value	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Revenue Expenditure Funded	Expenditure incurred in	Revenue provision to cover historical cost determined in	Capital Adjustment Account

NOTES TO THE CORE FINANCIAL STATEMENTS

from Capital under Statute	2015/16	accordance with the 2003 Regs	
Capital Grants and Contributions	Grants that became unconditional in 2015/16 or were received in 2015/16 without conditions	No credit	Capital Grants Unapplied Reserve (amounts unapplied at 31 March 2016) Capital Adjustment Account (other amounts)
Non-Current Asset Disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount) Capital Receipts Reserve (sale proceeds and costs of disposal) Deferred Capital Receipts Reserve (where sale proceeds have yet to be received)
Financial Instruments	Premiums payable and discounts receivable on the early repayment of borrowing in 2015/16 Losses on soft loans granted in 2015/16 and interest receivable in 2015/16 on an amortised cost basis	Deferred debits and credits of premiums and discounts from earlier years in accordance with the 2003 Regs Interest due to be received on soft loans in 2015/16	Financial Instruments Adjustment Account
Pensions Costs	Movements in pensions assets and liabilities (see Policy)	Employer's pensions contributions payable and direct payments made by the Council to pensioners for 2015/16	Pensions Reserve
Council Tax	Accrued income from 2015/16 bills	[Demand on the Collection Fund/precept] for 2015/16 plus [recovery of estimated deficit/share of estimated surplus] for 2014/15	Collection Fund Adjustment Account
Business Rates	Accrued income from 2015/16 bills	Budgeted income receivable from the Collection Fund for 2015/16 plus [recovery of estimated deficit/share of estimated surplus] for 2014/15	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March 2016	No charge	Accumulated Absences Adjustment Account
Equal Pay	Changes in the provision for settlement of Equal Pay claims made in 2015/16	Actual settlement of claims in 2015/16	Equal Pay Back Pay Account

c) Acquisitions and Discontinued Operations

Transactions relating to Acquired and Discontinued Operations are separately disclosed within the Comprehensive Income and Expenditure Statement and the Balance Sheet including comparatives as required by the Code of Practice.

d) Cash and Cash Equivalents

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

e) Exceptional Items

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

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

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

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

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

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

There are no prior period adjustments to report in 2015/16.

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 Teachers' annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the 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 members of two separate pension schemes:

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

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

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

- Assets and Liabilities of the fund will not be split between the Council and Capita, so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both Council employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both Council employees and employees transferred to Capita.
- The Pension Interest Costs in the Income & Expenditure Account will be reflective of the Council's share, including the Capita element.
- The SCC actual pension fund contributions for 2015/16 will be excluded from SCC's accounts, and will be a reconciling item in the MiRS.
- The accounts will therefore reflect the full IAS19 position of the Council including the Capita element.

The 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 scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates etc, and projections of 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:

- **Current Service Cost** – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- **Past Service Cost** – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- **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

NOTES TO THE CORE FINANCIAL STATEMENTS

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.
- **Contributions Paid to Hampshire County Council** – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the 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.

The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Council by £366.8M in 2015/16 (£390.7M in 2014/15).

The total liability of £366.8M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see Note 34 (Defined Benefit Pension Schemes).

h) Events After the Balance Sheet date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts, for Southampton City Council this date has been determined as 13 May 2016.

i) Financial instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to their contractual provisions and are initially measured at fair value.

Financial Assets

Financial assets are classified into two types:

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

[Loans and Receivables](#)

NOTES TO THE CORE FINANCIAL STATEMENTS

Loans and receivables 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 loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

k) Heritage Assets

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

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

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

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

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

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

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

- **Local and Maritime Collections** – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are 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.

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

- **Historic Buildings and Ancient Monuments** – The Council has a number of Historic Buildings and Structures including:
 - The Tudor House Museum;
 - God's House Tower;
 - The Bargate;
 - The Wool House;
 - West Gate Hall (formerly Tudor Merchants Hall); and

NOTES TO THE CORE FINANCIAL STATEMENTS

- Town Walls and various Vaults.

Valuation

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

Buildings are valued as per Property, Plant and Equipment (PPE) Accounting Policy.

l) Interests in Companies and Other Entities

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

In 2015/16 there were no relationships which would require the Council to produce Group Accounts.

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. 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 Arrangements

Joint Arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangement can be classed as

- A Joint Venture
- A Joint Operation

Joint Venture

A Joint Venture is an arrangement under which two or parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

Joint Operation

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council does not have any material finance or operating leases.

Finance Leases

The Council does not have any material finance leases, although has entered into a number of Private Finance Initiative (PFI) arrangements detailed further in note 1 r) Accounting Policies.

Operating Leases

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

p) Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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 – Fair value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost.

NOTES TO THE CORE FINANCIAL STATEMENTS

- All Other Assets – Fair value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

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

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

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

When decreases in value are identified, they are accounted for 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 unless the decrease is considered to be exceptional in nature.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the 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 unless the impairment is considered to be exceptional in nature.

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

Depreciation

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

Depreciation is calculated on the following bases:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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. 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 have changed to allow local authorities to retain receipts that exceed a predetermined set level. This predetermined level is known as the share cap. Once the share cap has been achieved 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 that fall within the share cap are still subject to updated pooling arrangements that return a predetermined proportion to the Government.

Capital receipts are required to be credited to the Capital Receipts Reserve, and can then be used for new capital investment; set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement), used for the repayment of principal for loans taken out to finance capital expenditure, and can be used to meet the cost of equal pay claims. From 2016/17 the 'flexible use of capital receipts' will be introduced allowing Councils to fund transformation revenue project costs from capital receipts. Receipts are appropriated to the Reserve 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 PPE 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

- 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 Assets

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

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

Contingent liabilities and assets are not recognised in the Balance Sheet but disclosed in note 35 to the accounts.

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 in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the MiRS so that there is no net charge against council tax for the expenditure.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 capital or revenue in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and all VAT paid is recoverable from them.

w) Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a ten year strategic services partnership contract with Capita, this was subject to extensive renegotiations in 2014/15, resulting in significant savings and benefits, and an extension of the contract for an additional five years in accordance with the original agreement.

The contract, which involved the TUPE transfer of approximately 650 employees to Capita, delivers a wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

As part of the contract the majority of the Council's IT assets transferred in ownership to Capita. The contract charges from Capita take account of the fact that we have donated the assets to the contract, i.e. the contract charges would have been higher if we had not donated the assets or if we had charged an amount for them. The contract did not state what this reduction in charges was. Neither was it possible to estimate the open market value of the assets. Therefore, as the IT assets held on the Balance Sheet had been originally recognised at cost and were being depreciated over short lives relevant to the nature of the assets, the Net Book Value (£3.2M) was deemed to be a reasonable approximation to the fair value. The transferred assets have been written out of the Balance Sheet.

A balance for Deferred Consideration, (within Long Term Debtors), has been established with the Net Book Value of the assets. The deferred consideration is then written down to zero over the ten year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement. This is then reversed out through the MiRS.

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

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

It should be noted that a full review of the contract was undertaken in 2015/16 and approval was given at Council 16th March 2016 to bring Property and the strategic element of HR back in house. These services will be reintegrated in to the Council during 2016/17.

x) Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NDR). The fund's key features relevant to accounting for Council Tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- The Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the MiRS.

Since the collection of Council Tax and NDR income is in substance an agency arrangement:

NOTES TO THE CORE FINANCIAL STATEMENTS

- Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers, and
- Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs proportionately to the billing authority (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%). There will therefore be a debtor/creditor position between the billing authority, the Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from NDR Taxpayers.

y) Schools

The Code 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.

z) Rounding Convention

Unless otherwise stated the convention used in this document is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures and, therefore, may 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 the following new or amended standards within the 2016/17 Code:

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) – This takes effect from 1 April 2016. The Infrastructure Code confirms that the changes arising do not require retrospective adjustment to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of works, which would have been built up over a significant time period. If the changes had been implemented in 2015/16, based on current estimates the value of infrastructure assets would increase from £168M to circa £3.9bn with an equivalent ten-fold increase in depreciation.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

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 has reclassified Property, Plant and Equipment as Heritage Assets where the assets were held and maintained principally for their contribution to knowledge and culture. In addition, the Council has identified and included a number of collections, principally held at museums, as heritage assets.
- **Asset reclassifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and

NOTES TO THE CORE FINANCIAL STATEMENTS

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. 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, VA, 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 2016	Infant	Junior	Primary	Secondary	Other	Total
Academies	5	4	8	4	1	22
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	4	4	18	5	5	36
Foundation Trust	1		5	2	1	9
Free Schools					1	1
Grand Total	10	8	37	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 academy the Council accounts for this as a disposal for nil consideration. As at 31 March 2016, the Council held £6.7M assets on its balance sheet in respect of a School where approval to transfer has been received but the transfer had not occurred.
- **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

NOTES TO THE CORE FINANCIAL STATEMENTS

are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision made. The accounting treatment for finance and operating leases is significantly different, (Note 1 o) Accounting Policies), and could have a significant effect on the Financial Statements.

- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Future Funding for Local Government** – There is a high degree of uncertainty about future levels of funding for local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.
- **Doubtful Debts Allowances** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.
- **NDR Appeals Provision** – The Council has made judgements about the level of the NDR appeals that it needs to provide for. These judgements are based on historical levels of refunds as a % of the Gross rate yield after reliefs per the NNDR 1 return (7.3%).

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 2016, the Council had a balance of sundry debtors of £14.3M (excluding £2.8M deferred capital receipt). The current level of impairment allowance (Bad Debt Provision) based on previous experience, is £0.9M, which represents 6% 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 £4.8M to set aside as an allowance.
NDR Appeals	Since the introduction of Business Rates	An increase or reduction of the

NOTES TO THE CORE FINANCIAL STATEMENTS

Provision	Retention Scheme from 1 April 2013, Local Authorities are now 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 2016. The estimate is a percentage of the Gross rate yield after reliefs per the NNDR1 (based on prior years refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals)	appeals provision estimate of 1.0%, would increase/(reduce) the year end NDR appeals provision by £1.0M and (£1.0M) 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 2016 and the projected service cost for the year ending 31 March 2017 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)	938.25	974.57
% change of present value of total obligation	-1.9%	1.9%
Projected service cost (£M's)	19.88	21.21
Approximate % change in projected service cost	-3.2%	3.3%

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)	959.74	952.77
% change of present value of total obligation	0.4%	-0.4%
Projected service cost (£M's)	20.54	20.54
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)	971.04	941.69
% change of present value of total obligation	1.5%	-1.5%
Projected service cost (£M's)	21.21	19.88
Approximate % change in projected service cost	3.3%	-3.2%

NOTES TO THE CORE FINANCIAL STATEMENTS

Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	980.54	931.86
% change of present value of total obligation	2.5%	-2.5%
Projected service cost (£M's)	21.23	19.85
Approximate % change in projected service cost	3.3%	-3.4%
* 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

There were no prior period adjustments.

6. Exceptional Items

Revaluation of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) of General Fund and HRA properties as exceptional items.

7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on 25 July 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8. Amounts Reported for Resource Allocation Decisions

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2015/16 Reconciliation	Communities, Culture & Leisure	Education & Children's Social Care	Environment & Transport	Finance	Health & Adult Social Care	Housing & Sustainability	Leader's Portfolio	Transformation	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(2,181)	(6,169)	(24,318)	(9,309)	(11,789)	(1,205)	(17,334)	0	(72,305)	(7,022)	(79,327)	(77,114)	(156,441)
Government Grants & Contributions	(482)	(144,707)	(3,785)	(491)	(29,716)	(858)	(2,221)	(869)	(183,129)	0	(183,129)		(183,129)
Total Income	(2,663)	(150,876)	(28,103)	(9,800)	(41,505)	(2,063)	(19,555)	(869)	(255,434)	(7,022)	(262,456)	(77,114)	(339,570)
Employee Expenses	3,783	25,562	14,938	19,862	19,199	2,120	8,059	1,231	94,754	785	95,539	17,856	113,395
Other Operating Expenses	4,535	171,074	30,577	27,029	83,588	1,411	20,253	278	338,745	4,863	343,608	48,918	392,526
Internal Charges	233	152	3,634	98	298	1,086	842	0	6,343	1,480	7,823	10,340	18,163
Total Operating Expenses	8,551	196,788	49,149	46,989	103,085	4,617	29,154	1,509	439,842	7,128	446,970	77,114	524,084
Net Controllable Cost	5,888	45,912	21,046	37,189	61,580	2,554	9,599	640	184,408	106	184,514	0	184,514
Net Non Controllable Costs	7,797	16,981	11,986	(20,879)	8,807	1,388	(4,737)	61	21,404		21,404		21,404
Total Portfolio Cost	13,685	62,893	33,032	16,310	70,387	3,942	4,862	701	205,812	106	205,918	0	205,918

Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement	£000
Total Service Analysis Cost	205,918
Add Services Not Included in Main Analysis	(767)
Add Amounts Reported to Management Outside Services	(128,997)
Add Amounts Not Reported to Management	(20,891)
Remove Amounts Reported to Management Not Included in Cost of Services	130,611
Cost of Services in Comprehensive Income and Expenditure Statement	185,873

Reconciliation to Subjective Analysis	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Cost of Services	Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(156,441)	(3,749)	(559)	(4,286)	7,366	(157,669)		(157,669)
Government Grants & Contributions	(183,129)	(112,962)	(54,680)	13,269	54,680	(282,822)	(77,038)	(359,860)
Interest and Investment Income			(1,222)		1,222		0	(1,269)
Income From Council Tax			(3,205)		3,205		0	(79,514)
NDR Redistribution			(50,483)		50,483		0	(51,484)
Total Income	(339,570)	(116,711)	(110,149)	8,983	116,956	(440,491)	(209,305)	(649,796)
Employee Expenses			113,395		(2,708)	110,687	12,160	122,847
Other Operating Expenses			392,526	115,944	(51,868)	(2,669)	453,933	453,933
Internal Charges			18,163		(977)	17,186		17,186
Depreciation, Amortisation and Impairment				(24,531)	47,082	24,531	47,082	47,082
Investment Properties							0	319
Interest Payable and Similar Charges				4,191		(4,191)	0	15,171
Other Miscellaneous Items				(689)		1,118	429	429
(Draw From)/(Addition to) from Balances				1,614		(4,567)	(2,953)	(2,953)
Precepts & Levies				566		(566)	0	566
Payments to Housing Capital Receipts Pool							0	1,218
Loss / (Gain) on Disposal of Fixed Assets							0	(4,930)
Total Operating Expenses		524,084	115,944	(18,848)	(8,471)	13,655	626,364	24,504
Net Non Controllable Costs				21,404		(21,404)	0	0
Surplus / Deficit on the Provision of Services		205,918	(767)	(128,997)	(20,891)	130,611	185,873	(184,801)

NOTES TO THE CORE FINANCIAL STATEMENTS

2014/15 Reconciliation	Adult Services	Children's Services	Communities	Environment & Transport	Housing & Sustainability	Leader's Portfolio	Resources & Leisure	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(11,099)	(10,790)	(658)	(23,119)	(920)	(2,604)	(24,644)	(73,834)	(7,324)	(81,158)	(75,321)	(156,479)
Government Grants & Contributions	(26,414)	(144,527)	(373)	(5,034)	(415)	(2,608)	(1,125)	(180,496)	0	(180,496)		(180,496)
Total Income	(37,513)	(155,317)	(1,031)	(28,153)	(1,335)	(5,212)	(25,769)	(254,330)	(7,324)	(261,654)	(75,321)	(336,975)
Employee Expenses	19,792	27,652	1,441	16,393	1,271	6,352	21,567	94,468	838	95,306	17,586	112,892
Other Operating Expenses	82,474	168,845	1,656	33,877	836	2,858	50,271	340,817	5,037	345,854	45,592	391,446
Internal Charges	261	261	182	3,740	1,014	103	940	6,501	1,489	7,990	12,420	20,410
Total Operating Expenses	102,527	196,758	3,279	54,010	3,121	9,313	72,778	441,786	7,364	449,150	75,598	524,748
Net Controllable Cost	65,014	41,441	2,248	25,857	1,786	4,101	47,009	187,456	40	187,496	277	187,773
Net Non Controllable Costs	7,279	18,989	800	10,219	546	59	(15,904)	21,988		21,988		21,988
Total Portfolio Cost	72,293	60,430	3,048	36,076	2,332	4,160	31,105	209,444	40	209,484	277	209,761

Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement

Total Service Analysis Cost 209,761

Add Services Not Included in Main Analysis	(742)
Add Amounts Reported to Management Outside Services	(136,782)
Add Amounts Not Reported to Management	(12,033)
Remove Amounts Reported to Management Not Included in Cost of Services	141,794

Cost of Services in Comprehensive Income and Expenditure Statement 201,998

Reconciliation to Subjective Analysis

	Service Analysis	Services Not Included in Main Analysis	Amounts Reported to Management Outside Services	Amounts Not Reported to Management	Amounts Reported to Management Not Included in Cost of Services	Cost of Services in Comprehensive Income and Expenditure Statement	Corporate Adjustments	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(156,479)	(2,803)	0	(5,707)	6,777	(158,212)		(158,212)
Government Grants & Contributions	(180,496)	(114,574)	(73,533)	20,963	73,533	(274,107)	(99,709)	(373,816)
Interest and Investment Income			(1,546)		1,546	0	(1,572)	(1,572)
Income From Council Tax			(1,782)		1,782	0	(75,813)	(75,813)
NDR Redistribution			(38,494)		38,494	0	(50,052)	(50,052)
Total Income	(336,975)	(117,377)	(115,355)	15,256	122,132	(432,319)	(227,146)	(659,465)
Employee Expenses	112,892			(538)		112,354	14,490	126,844
Other Operating Expenses	391,446	116,635		(38,218)	(2,203)	467,661		467,661
Internal Charges	20,410			(904)		19,507		19,507
Depreciation, Amortisation and Impairment			(24,563)	34,358	24,563	34,358		34,358
Investment Properties						0	(986)	(986)
Interest Payable and Similar Charges			4,771		(4,771)	0	15,592	15,592
Other Miscellaneous Items			437		1	438		438
Draw from Balances			(2,516)		2,516	0		0
Precepts & Levies			444		(444)	0	444	444
Payments to Housing Capital Receipts Pool						0	1,060	1,060
Loss / (Gain) on Disposal of Fixed Assets						0	11,244	11,244
Total Operating Expenses	524,748	116,635	(21,427)	(5,301)	19,662	634,318	41,844	676,162
Net Non Controllable Costs	21,988			(21,988)		0		0
(Surplus) / Deficit on the Provision of Services	209,761	(742)	(136,782)	(12,033)	141,794	201,999	(165,302)	16,697

NOTES TO THE CORE FINANCIAL STATEMENTS

9. Transfers (to) / from Earmarked Reserves

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

	<u>Balance</u> <u>31 March</u> <u>2015</u> <u>£000</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2015/16</u> <u>£000</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2015/16</u> <u>£000</u>	<u>Balance</u> <u>31 March</u> <u>2016</u> <u>£000</u>
<u>Earmarked Reserves</u>				
<u>General Fund</u>				
PFI Sinking Fund	(4,324)		9	(4,315)
Pay Reserve	(1,612)		1,612	0
On Street Parking	(2,373)	(749)		(3,122)
Treasury Risk Reserve	(3,063)		3,063	0
Transformation	(4,430)		1,240	(3,190)
General Fund Contributions to Capital	(3,573)		3,339	(234)
Medium Term Financial Risk Reserve	(10,894)	(13,955)		(24,849)
Taxation Reserve	(2,000)	(100)		(2,100)
Organisational Design Reserve	(9,766)	(4,677)		(14,443)
Revenue Grant Reserve - Waste Services	(1,633)			(1,633)
Revenue Grant Reserve - City Deal	(3,462)		682	(2,780)
Accomodation Reserve	(1,815)			(1,815)
Revenue Grant Reserve - General	(1,279)		132	(1,147)
Capital Funding Risk Reserve	0	(3,221)		(3,221)
Other Reserves	(1,732)		637	(1,095)
	(51,956)	(22,702)	10,714	(63,944)
<u>Schools</u>				
School Balances	(10,856)		2,375	(8,481)
	(62,812)	(22,702)	13,089	(72,425)

The purpose of the main reserves are noted below:

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 intended move to 100% 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.

Transformation 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 transformation.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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.

Organisational Design Reserve

The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS.

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.

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 is released to the general fund revenue account on an annual basis.

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.

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2015	(19,937)	(62,812)	(2,000)	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)
Movement in Reserves during 2015/16									
Surplus / (deficit) on Provision of Services	70,887		(69,815)		0	0	1,072		1,072
Other Comprehensive Income and Expenditure							0	(87,055)	(87,055)
Surplus or deficit on revaluation of non current assets							0	(50,685)	(50,685)
Surplus or deficit on revaluation of available for sale financial assets							0	(300)	(300)
Impairment losses (chargeable to the Revaluation Reserve)							0	0	0
Actuarial (gains) / losses on pension assets / liabilities							0	(36,070)	(36,070)
Total Comprehensive Income and Expenditure	70,887	0	(69,815)	0	0	0	1,072	(87,055)	(85,983)
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(802)						(802)	802	0
Depreciation and Impairment of Non Current Assets	(80,243)		53,865				(26,378)	26,378	0
Movement on Market Value of Investment Properties	(5,087)		71				(5,016)	5,016	0
Assets Transferred to CAPITA	(383)						(383)	383	0
Capital Grants and Contributions Applied	26,475		748				27,223	(27,223)	0
Capital Grants and Contributions Unapplied	3,685		0			(3,685)	0	0	
Revenue Expenditure Funded from Capital Under Statute	(8,843)						(8,843)	8,843	0
Short-term Accumulating Compensated Absences	913						913	(913)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	59						59	(59)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,018)		(4,192)				(34,210)	34,210	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	19,304		2,696				22,000	(22,000)	0
HRA Self Financing							0	0	0
Capitalisation Directive	0						0	0	0
Statutory Provision for the Financing of Capital Investment	2,423						2,423	(2,423)	0
Capital Receipts used for the Repayment of Loans				0			0	0	0
Voluntary Provision for the Financing of Capital Investment	0		5,135				5,135	(5,135)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,218)			1,218			0	0	0
Capital expenditure charged in-year to the General Fund Balance	381		7,532				7,913	(7,913)	0
Amount by which council tax income and NNDR credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	40						40	(40)	0
Transfers to/(from) Major Repairs Reserves			19,832		(19,832)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)			(19,832)		19,832		0	0	0
(Gain) or loss on the sale of HRA non-current assets							0	0	0
Amortisation of Item 8 Discount			(13)				(13)	13	0
Net (loss) / gain on sale of Fixed Assets							0	0	0
Capital Receipts in Year	2,928		8,816	(11,744)			0	0	0
Non-current Asset Disposals	(2,124)		(4,843)				(6,967)	6,967	0
Capital Receipts Financing of New Capital Expenditure				5,192			5,192	(5,192)	0
12/13 RTB Receipts repaid to DCLG	(860)			860		0	0	0	0
	(73,370)	0	69,815	(4,474)	0	(3,685)	(11,714)	11,714	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,483)	0	0	(4,474)	0	(3,685)	(10,642)	(75,341)	(85,983)
Transfers to/(from) Earmarked Reserves (Note 9)	9,614	(9,613)	0	0	0	0	1	(1)	0
(Increase)/Decrease movement in Year	7,131	(9,613)	0	(4,474)	0	(3,685)	(10,641)	(75,342)	(85,983)
Balance at 31 March 2016	(12,806)	(72,425)	(2,000)	(13,596)	0	(10,593)	(111,420)	(759,563)	(870,983)

NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2014	(53,409)	(28,587)	(2,278)	(6,391)	0	(7,222)	(97,887)	(739,751)	(837,638)
Movement in Reserves during 2014/15									
Surplus or (deficit) on Provision of Services	41,522		(24,825)		0	0	16,697		16,697
Other Comprehensive Income and Expenditure							0	35,941	35,941
Total Comprehensive Income and Expenditure	41,522	0	(24,825)	0	0	0	16,697	35,941	52,638
Adjustments between accounting basis & funding basis under regulations									
Amortisation of Intangible Fixed Assets	(588)						(588)	588	0
Depreciation and Impairment of Fixed Assets	(49,128)		(7,506)				(56,634)	56,634	0
Movement on Market Value of Investment Properties	(3,168)		(420)				(3,588)	3,588	0
Assets Transferred to CAPITA	(364)						(364)	364	0
Capital Grants and Contributions Applied	29,001		2,103				31,104	(31,104)	0
Capital Grants and Contributions Unapplied	278		(1)			(277)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(5,971)						(5,971)	5,971	0
Short-term Accumulating Compensated Absences Account	(242)						(242)	242	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	59						59	(59)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,669)		(4,321)				(34,990)	34,990	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,652		2,628				21,280	(21,280)	0
Statutory Provision for the Financing of Capital Investment	2,499						2,499	(2,499)	0
Capital Receipts used for the Repayment of Loans				6,223			6,223	(6,223)	0
Voluntary Provision for the Financing of Capital Investment	0		5,130				5,130	(5,130)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,060)			1,060			0	0	0
Capital expenditure charged in-year to the General Fund Balance	1,068		5,544				6,612	(6,612)	0
Amount by which council tax income and NNDR credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	12,121						12,121	(12,121)	0
Transfers to/(from) Major Repairs Reserve					68		68	(68)	0
HRA Depreciation			18,939		(18,939)		0	0	0
Financing of HRA Assets					18,871		18,871	(18,871)	0
Amortisation of Item 8 Discount			(13)				(13)	13	0
Capital Receipts in Year	11,218		7,374	(18,592)			0	0	0
Non-current Asset Disposals	(25,762)		(4,353)				(30,115)	30,115	0
Capital Receipts Financing of New Capital Expenditure				6,185			6,185	(6,185)	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				2,762			2,762	(2,762)	0
Historic Cost Depreciation Adjustment							0		0
Other - inc Repayment of Temporary Borrowing							0	0	0
Capital Grants Transfers - misclassified	(222)			(369)		591	0	0	0
	(42,278)	0	25,104	(2,731)	0	314	(19,591)	19,591	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(756)	0	279	(2,731)	0	314	(2,894)	55,532	52,638
Transfers to/(from) Earmarked Reserves (Note 9)	34,228	(34,225)	(1)	0	0	0	2	(2)	0
(Increase)/Decrease movement in Year	33,472	(34,225)	278	(2,731)	0	314	(2,892)	55,530	52,638
Balance at 31 March 2015	(19,937)	(62,812)	(2,000)	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Interest Payable and Receivable

Interest Payable and Similar Charges		
<u>2014/15</u>		<u>2015/16</u>
£000		£000
8,688	Interest on External Loans	8,321
498	Payments to HCC in respect of Transferred Debt	486
210	Interest on Funds held	138
6,195	PFI Schemes	6,226
1	Finance Leases	0
<u>15,592</u>		<u>15,171</u>

Interest and Investment Income		
<u>2014/15</u>		<u>2015/16</u>
£000		£000
(936)	Temporary Investments	(1,212)
(26)	HRA Cash Balances	(24)
(610)	Other	(33)
<u>(1,572)</u>		<u>(1,269)</u>

12. Property Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,261M, an increase of £71M. The basis of valuation is explained in more detail in Note 1q) (Accounting Policies). The values are shown as at 31 March 2016.

a) Depreciation

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

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

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 Capita Symonds. 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 2015/16 there was a £4.9M profit on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, which mainly relates the Housing Revenue Account (2014/15 - £11.2M Loss which included £12.7M of schools transfers to Academy and Foundation Trusts).

NOTES TO THE CORE FINANCIAL STATEMENTS

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) 2015/16									
	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 2015	527,622	618,093	48,462	185,374	1,067	983	10,919	1,392,520	99,295
Additions	38,818	6,515	1,657	14,185	47	0	5,154	66,376	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		50,616			0	0		50,616	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	34,629	(58,213)			(103)	(48)	0	(23,735)	0
Derecognition-Disposals	(4,837)	(399)			(1)	0	0	(5,237)	
Derecognitions- Fully Depreciated			(648)					(648)	
Other Reclassifications	786	2,344			2,618	0	0	5,748	
At 31 March 2016	597,018	618,956	49,471	199,559	3,628	935	16,073	1,485,639	99,295
Accumulated Depreciation and Impairment									
At 1 April 2015	(18,871)	(146,349)	(8,416)	(27,877)	(49)	(935)		(202,497)	(13,353)
Depreciation Charge	(19,832)	(14,199)	(3,357)	(4,022)		0		(41,410)	(2,831)
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,871							18,871	
Derecognition-Disposals		45	648			0		693	
At 31 March 2016	(19,832)	(160,503)	(11,125)	(31,899)	(49)	(935)	0	(224,343)	(16,184)
Net Book Value									
At 31 March 2016	577,186	458,453	38,346	167,660	3,579	0	16,073	1,261,296	83,111
At 31 March 2015	508,751	471,744	40,046	157,497	1,018	48	10,919	1,190,023	85,942

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost		194	38,346	167,660	(0)	0	16,073	222,273
Valued at Fair Value in:								
2015/16	577,186	393,491			3,579			974,256
2014/15		28,099			0			28,099
2013/14		22,511						22,511
2012/13		14,158						14,158
Net Book Value as at 31 March 2016	577,186	458,453	38,346	167,660	3,579	0	16,073	1,261,297

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PPE) 2014/15									
	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 2014	508,506	638,738	41,263	167,078	1,067	9,149	9,854	1,375,655	92,450
Additions	30,138	7,136	11,932	18,296	0	0	2,920	70,422	6,845
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		9,214			0	(127)		9,087	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,669)	(21,580)			0	(1,442)	0	(29,691)	0
Derecognition- Disposals	(4,353)	(15,977)			0	(4,022)	0	(24,352)	
Derecognitions- Fully Depreciated			(4,733)					(4,733)	
Other Reclassifications	0	562			0	(2,575)	(1,855)	(3,868)	
At 31 March 2015	527,622	618,093	48,462	185,374	1,067	983	10,919	1,392,520	99,295
Accumulated Depreciation and Impairment									
At 1 April 2014	(18,193)	(133,624)	(10,158)	(24,231)	(49)	(1,593)		(187,848)	(10,748)
Depreciation Charge	(18,871)	(15,059)	(2,991)	(3,646)		(312)		(40,879)	(2,604)
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,193							18,193	
Derecognition- Disposals		2,334	4,733			970		8,037	
At 31 March 2015	(18,871)	(146,349)	(8,416)	(27,877)	(49)	(935)	0	(202,497)	(13,353)
Net Book Value									
At 31 March 2015	508,751	471,744	40,046	157,497	1,018	48	10,919	1,190,023	85,942
At 31 March 2014	490,313	505,114	31,105	142,847	1,018	7,556	9,854	1,187,807	81,701

Capital Commitments

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to cost £25.2M. Similar commitments at 31 March 2015 were £28.7M. The major commitments are:

	2014/15	2015/16
	£000	£000
HRA - Modern Facilities	18,087	11,277
HRA - Safe Wind and Weather Tight	2,879	3,199
HRA - Estate Regeneration & New Build	1,531	2,422
Southampton New Arts Centre (SNAC)	1,190	587
HRA - Well Maintained Communal Facilities	914	1,655
HRA - Warm and Energy Efficient	623	660
Oaklands Swimming Pool	0	1,123
Other Various Minor Commitments	3,495	4,231
Total	28,719	25,154

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of the Carrying Value of Heritage Assets Held by the Council			
	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
1 April 2014	190,000	7,108	197,108
Additions		14	14
31 March 2015	190,000	7,122	197,122
Accumulated Depreciation and Impairment			
1 April 2014		(736)	(736)
Charge for year		0	0
31 March 2015	0	(736)	(736)
Net Book Value			
31 March 2015	190,000	6,386	196,386
31 March 2014	190,000	6,372	196,372
	Works of Art	Historic Buildings and Ancient Monuments	Total Assets
	£000	£000	£000
Cost or Valuation			
1 April 2015	190,000	7,122	197,122
Additions		3	3
Revaluations		(3)	(3)
Transfers to Property Plant & Equipment		(6,283)	(6,283)
31 March 2016	190,000	839	190,839
Accumulated Depreciation and Impairment			
1 April 2015	0	(736)	(736)
31 March 2016	0	(736)	(736)
Net Book Value			
31 March 2016	190,000	103	190,103
31 March 2015	190,000	6,386	196,386

Additions, Transfers and Disposals of Heritage Assets

There were £3k (£14k 14/15) of Heritage Asset additions and no disposals in either current or previous year. During the year a number of museums were reclassified to Other Land and Buildings following a review undertaken by Valuers.

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:

2014/15		2015/16
£000		£000
(6,777)	Rental Income	(7,366)
2,203	Operating Expenditure	2,669
(4,574)	Net (Gains)/Losses	(4,697)
3,588	Net (gains)/losses from fair value adjustments	5,016
(986)	Net (Income) / Expenditure	319

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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:

	<u>2014/15</u>	<u>2015/16</u>
	<u>£000</u>	<u>£000</u>
Balance at start of year	112,352	101,426
Additions:		
Purchases	0	0
Construction	0	0
Subsequent Expenditure	63	9
Disposals	(7,555)	(1,775)
Net gains / (losses) from fair value adjustments	(3,588)	(5,016)
Transfers		
(to) /from inventories	0	0
(to) / from Property, Plant and Equipment	154	535
Balance at End of Year	<u>101,426</u>	<u>95,179</u>

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.

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

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

<u>Purchased Software</u>		
	<u>31 March</u>	<u>31 March</u>
	<u>2015</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Gross carrying amount	4,471	7,287
Accumulated amortisation	(2,007)	(2,595)
Net Carrying Amount at Start of the Year	<u>2,464</u>	<u>4,692</u>
Purchases	2,816	639
Amortisation for the period	(588)	(802)
Net Carrying Amount at End of the Year	<u>4,692</u>	<u>4,529</u>

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2014/15</u>	<u>2015/16</u>
	£000	£000
Balance at Start of Year	4,627	2,571
Assets newly classified as held for sale from:		
Property, Plant and Equipment	3,714	0
Revaluation Gains		68
Impairment losses to CIES	(4,258)	0
Assets Sold	(1,512)	0
Balance at End of Year	2,571	2,639

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 finance leases), and investment transactions are classified as financial instruments.

Financial Liabilities

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

The Council's non-derivative 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,
- Transferred debt liability to Hampshire County Council as a result of local government reorganisation,
- Finance leases on land and buildings,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash,
- Bank accounts,
- Fixed term deposits with banks and building societies,
- Loans to other local authorities, and
- Trade receivables for goods and services delivered (have been measured at cost on the Balance Sheet as these are considered immaterial).

Available for sale financial assets (those that are quoted in an active market) comprising:

- Money market funds and other collective investment schemes,
- Certificates of deposit and covered bonds issued by banks and building societies,
- Treasury bills and gilts issued by the UK Government, and
- Bonds issued by multilateral development banks and companies,

NOTES TO THE CORE FINANCIAL STATEMENTS

- Equity investments in UK Municipal Bonds Agency.

Balances in money market funds and call accounts at 31 March 2016 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

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

b) Financial Instruments Balances

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

Financial Liabilities	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2015	2016	2015	2016	2015	2016
	£000	£000	£000	£000	£000	£000
Loans at amortised cost:						
- Principal sum borrowed	(231,805)	(220,300)	(20,859)	(28,861)	(252,664)	(249,161)
- Accrued interest			(1,208)	(1,124)	(1,208)	(1,124)
- EIR adjustments					0	0
Total Borrowing	(231,805)	(220,300)	(22,067)	(29,985)	(253,872)	(250,285)
Loans at amortised cost:						
- Bank Overdraft	0		(7,709)	(3,224)	(7,709)	(3,224)
Total Cash Overdrawn	0	0	(7,709)	(3,224)	(7,709)	(3,224)
Liabilities at amortised cost:						
- Finance leases	(9)	(1)			(9)	(1)
- PFI arrangements	(64,786)	(62,262)			(64,786)	(62,262)
Total Long-term Creditors	(64,795)	(62,263)	0	0	(64,795)	(62,263)
Liabilities at amortised cost:						
- Deferred Liabilities	(15,019)	(14,917)	(626)	(364)	(15,645)	(15,281)
Total Other Long-term Liabilities	(15,019)	(14,917)	(626)	(364)	(15,645)	(15,281)
Liabilities at amortised cost:						
- Deferred Liabilities						
- Finance leases			(11)	(6)	(11)	(6)
- PFI arrangements			(2,046)	(2,526)	(2,046)	(2,526)
- Trade payables			(9,918)	(10,522)	(9,918)	(10,522)
Included in Creditors	0	0	(11,975)	(13,054)	(11,975)	(13,054)
Total Financial Liabilities	(311,619)	(297,480)	(42,377)	(46,627)	(353,996)	(344,107)

Financial Assets	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2015	2016	2015	2016	2015	2016
	£000	£000	£000	£000	£000	£000
Loans and receivables:						
- Principal at amortised cost			0	0	0	0
- Accrued interest			65	0	65	0
Available for sale investments:						
- Principal at amortised cost	21,622	22,985	13,804	25,224	35,426	48,209
- Accrued interest			423	806	423	806
- EIR adjustments	649	(757)	(3)	0	646	(757)
- Fair value adjustments	568	1,303	4	(44)	572	1,259
Total Investments	22,839	23,531	14,293	25,986	37,132	49,517
Loans and receivables:						
- Cash			115	91	115	91
- Cash equivalent at amortised cost			54,808	39,066	54,808	39,066
- Accrued interest			42	31	42	31
Available for sale investments:					0	0
- Cash equivalent at amortised cost					0	0
Total Cash and Cash Equivalents	0	0	54,965	39,188	54,965	39,188
Loans and receivables:						
- Trade receivables			8,921	9,010	8,921	9,010
- Loans made for service purposes	5,004	1,617			5,004	1,617
- Accrued interest					0	0
Included in Debtors	5,004	1,617	8,921	9,010	13,925	10,627
Total Financial Assets	27,843	25,148	78,179	74,184	106,022	99,332

NOTES TO THE CORE FINANCIAL STATEMENTS

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 2016/17.

c) Unquoted Equity Instruments Measured at Cost

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.

d) 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.

e) 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:

	2015/16			2014/15	
	Financial Liabilities	Financial Assets		Total £000	Total £000
	Amortised cost £000	Loans and Receivables £000	Available-for- sale Assets £000		
Interest expense	15,036			15,036	15,457
Losses on derecognition	135			135	135
Interest Payable and Similar Charges	15,171	0	0	15,171	15,592
Interest income		(1,180)		(1,180)	(1,483)
Gains on derecognition	(89)			(89)	(89)
Interest and Investment Income	(89)	(1,180)	0	(1,269)	(1,572)
Gains on revaluation			(300)	(300)	(572)
Amounts recycled to the I&E Account after impairment			(300)	(300)	(572)
Impact of revaluation in Other Comprehensive Income					
Net Gain / (Loss) for the Year	15,082	(1,180)	(300)	13,602	13,448

f) Financial Instruments – Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following assumptions: bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2016.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

- The fair value of loans from the PWLB 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 fair values of long-term "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 Bloomberg's 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 value of PFI / Finance Lease Liabilities has been calculated by discounting the future principal and interest payments at the appropriate AA corporate bond yield.

NOTES TO THE CORE FINANCIAL STATEMENTS

- The Fair value 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 2016.
- 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.

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 Council'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.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2015</u>	<u>2015</u>			<u>2016</u>	<u>2016</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Liabilities held at amortised cost					
(243,310)	(271,969)	Public Works Loans	2	(231,805)	(266,479)
(9,000)	(12,962)	LOBO Loans	2	(9,000)	(12,657)
(15,645)	(15,645)	Deferred Liabilities	2	(15,281)	(15,281)
(66,852)	(111,777)	PFI/Finance Lease Liabilities	3	(64,795)	(103,664)
(334,807)	(412,353)			(320,881)	(398,081)
Liabilities for which Fair Value is not disclosed*					
(1,562)		Short Term borrowing		(9,480)	
(7,709)		Bank Overdraft		(3,224)	
(9,918)		Trade Payables (Creditors)		(10,522)	
(19,189)				(23,226)	
(353,996)		Total Financial Liabilities		(344,107)	

**the fair value of short term liabilities including trade payables is assumed to approximate to the carrying amount.*

The fair value of financial asset 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.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2015</u>	<u>2015</u>			<u>2016</u>	<u>2016</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
Financial Assets held at Fair Value					
34,310	34,310	Money Market Funds	1	29,076	29,076
5,363	5,363	Bond, Equity and Property Funds	1	7,597	7,597
31,769	31,769	Corporate, Covered and Government Bonds	2	41,810	41,810
71,442	71,442			78,483	78,483
Assets for which Fair Value is not disclosed*					
<i>Recorded on balance sheet as:</i>					
5,004		Long Term Debtors		1,617	
0		Short Term investments		90	
0		Shares in unlisted companies		20	
20,655		Cash and Cash Equivalents		10,112	
8,921		Trade Receivables (Debtors)		9,010	
34,580				20,849	
106,022		Total Financial Assets		99,332	

**the fair value of short term assets including trade receivables is assumed to approximate to the carrying amount.*

NOTES TO THE CORE FINANCIAL STATEMENTS

g) Financial Instruments – Risks

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

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the 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 Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity. The main risks covered are:

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

h) Credit Risk

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.

The strategy stated that 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 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 £89M 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 2016 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement for, approved by Full Council on 11 February 2015. The Treasury Strategy can be seen as Item 80 on the Council Meeting Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2016/17 to 2017/18](#)

The Credit quality of Council's investments is enhanced by collateral held - £20M 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 2016 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

NOTES TO THE CORE FINANCIAL STATEMENTS

Credit Rating	Long Term		Short Term	
	2015	2016	2015	2016
	£000	£000	£000	£000
AAA	14,298	12,556	2,271	11,128
AA+	3,246	3,358	138	3,660
AA			5,932	
AA-			25,380	2,212
A+			17,443	2,702
A			16,080	16,303
A-			2,014	
Shares in unlisted companies		20		
Unrated pooled funds	5,295	7,597		29,169
Total Investments	22,839	23,531	69,258	65,174

The above analysis shows that all deposits outstanding as at 31 March 2016 met the Council's minimum credit rating criteria of A- or above.

Trade Receivables

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

Trade Debtors and Impairment Provision				
	<u>Outstanding</u>		<u>Outstanding</u>	
	<u>31 March 2015</u>		<u>31 March 2016</u>	
	£000		£000	
General Fund				
Trade Debtors	4,818		5,098	
Trade Debtors Impairment Provision	(1,497)		(394)	
HRA				
Trade Debtors	4,103		3,912	
Trade Debtors Impairment Provision	(1,899)		(1,808)	

i) 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 done by 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 2016 was as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> <u>31 March 2015</u>	<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>	<u>Total Borrowing</u>	<u>Outstanding</u> <u>31 March 2016</u>	<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>
£000	%	Source of Loan	£000	%
(243,310)	96	Public Works Loan Board	(231,805)	93
(9,354)	4	Other Financial Institutions	(17,356)	7
(252,664)	100		(249,161)	100
Analysis of Loans by Maturity				
(20,859)	8	Less than 1 Year *	(28,861)	12
(11,505)	4	Between 1 and 2 years	(11,505)	4
(33,989)	13	Between 2 and 5 years	(32,198)	13
(47,464)	19	Between 5 and 10 years	(37,750)	15
(10,000)	4	Between 25 and 30 years	(10,000)	4
(5,000)	2	Between 30 and 35 years	(5,000)	2
(42,000)	17	Between 35 and 40 years	(42,000)	17
(54,850)	22	Between 40 and 45 years	(54,850)	22
(26,997)	11	Over 45 years	(26,997)	11
(252,664)	100		(249,161)	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.

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

<u>Loans and Other Long term Liabilities Outstanding (Nominal Value)</u>		
<u>Source</u>	<u>Outstanding</u> <u>31 March 2015</u>	<u>Outstanding</u> <u>31 March 2016</u>
	£000	£000
Public Works Loan Board	(243,310)	(231,805)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(354)	(8,356)
Deferred Liabilities	(15,645)	(15,281)
PFI / Finance Lease Liabilities	(66,852)	(64,795)
Total	(335,161)	(329,237)

j) 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 classed as "loans and receivables" 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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

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 2016 £123M (78%) of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and £35M to variable rates.

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

	£000
Increase in interest payable on variable rate borrowings	239
Increase in interest payable on variable rate investments	(650)
Impact on the Provision of Services (Surplus / Deficit)	(411)
Share of overall impact debited/credited to HRA	107
Decrease in fair value of fixed rate investment assets	(993)
Impact on Other Comprehensive Income and Expenditure	(993)
Decrease in fair value of fixed rate borrowings/liabilities (<i>no impact on Comprehensive Income and Expenditure</i>)	(34,076)

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

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 of £10M. As at 31 March 2016 the Authority had £7M invested in the Local Authority Property Fund which was valued at £7.6M. A 5% fall in commercial property prices would result in a £0.380M charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

18. Debtors

a) Long Term Debtors

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

- **Mortgages** – These are loans outstanding to borrowers either for the purchase of Council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties.
- **IT Assets transferred to Capita** – A balance for Deferred Consideration (within Long Term Debtors) was established, in 2007/08, with the Net Book Value of the assets (£3.3M). The deferred consideration (total cost including financing charges) is being written down to zero over the ten year life of the contract with the debit entry being to the Comprehensive Income and Expenditure Statement (£423.6k). This is then reversed out through the MiRS. As the Council has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the ten year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£40.4k). Therefore the net reduction in Long term debtors is £383.2k. More information relating to the contract with Capita is included in Note 1w) (Accounting Policies).
- **Capita Prepayment** – The Council made a prepayment of approximately £17.1M to Capita in 2012/13, allowing them to achieve financing savings, the benefit of which flows through to the Council in future years. The prepayment will be written down over the remaining life of the Contract. The balance carried forward as at 31 March 2016 is approximately £4.1M, the 2015/16 write down of £3M being shown within short term debtors Capita balance.
- **Other** – The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

NOTES TO THE CORE FINANCIAL STATEMENTS

Some loans are interest free where the loan has been made to employees who left the old car lease scheme. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

<u>31 March</u> <u>2015</u> £000	<u>31 March</u> <u>2016</u> £000
Mortgages	
8	8
Other	
786	403
4,076	1,112
134	94
<u>5,004</u>	<u>1,617</u>

b) Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2016. Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

<u>31 March</u> <u>2015</u> £000	<u>Debtors</u>	<u>31 March</u> <u>2016</u> £000
5,792	Government	4,944
1,215	HM Revenue & Customs (VAT)	1,295
<u>7,007</u>	Other Departments	<u>6,239</u>
2,681	Public Sector Organisations	407
529	Hampshire County Council	589
117	Other Local Government	70
868	Other Public Sector	333
4,195	Other Health Bodies	<u>1,399</u>
9,601	Taxpayers	10,029
(7,035)	Council Tax	(7,475)
1,830	Council Tax Impairment	2,275
(720)	Non-Domestic Rates	(920)
<u>3,676</u>	Non-Domestic Rates Impairment	<u>3,909</u>
7,466	General Fund - Other Debtors	9,395
(5,016)	Housing Benefit	(6,035)
4,968	Housing Benefit Impairment Provision	4,299
4,818	CAPITA	5,098
(1,497)	Trade Debtors	(394)
15,359	Trade Debtors Impairment Provision	17,103
(861)	Sundry Debtors	(914)
<u>25,237</u>	Sundry Debtors Impairment Provision	<u>28,552</u>
4,103	Housing Revenue Account - Other Debtors	3,912
(1,899)	Trade Debtors	(1,808)
1,408	Trade Debtors - Impairment Provision	1,324
(348)	Sundry Debtors	(342)
<u>3,264</u>	Sundry Debtors - Impairment Provision	<u>3,086</u>
<u>43,379</u>	Total Debtors	<u>43,185</u>

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 £3.2M, the Council's actual bank account balance at the Bank was a credit balance of £0.47M at 31 March 2016. The

NOTES TO THE CORE FINANCIAL STATEMENTS

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:

<u>31 March</u> <u>2015</u> <u>£000</u>		<u>31 March</u> <u>2016</u> <u>£000</u>
(7,709)	Bank Accounts	(3,224)
(7,709)		(3,224)
34,310	Money Market Funds	29,076
20,540	Call Accounts	10,021
115	Petty Cash	91
54,965		39,188
<u>47,256</u>		<u>35,964</u>

20. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2016.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff which are not paid over to HMRC by 31 March 2016.

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

<u>31 March</u> <u>2015</u> <u>£000</u>	<u>Creditors</u>	<u>31 March</u> <u>2016</u> <u>£000</u>
Government		
13,837	Department for Communities & Local Government	14,343
2,752	HM Revenue & Customs (PAYE & National Insurance)	1,815
1,200	Department for Work & Pensions (DWP)	2,127
455	Other Departments	774
<u>18,244</u>		<u>19,059</u>
Public Sector Organisations		
1,497	Hampshire County Council	2,109
3,313	Hampshire County Council (Local Government Pensions)	3,346
1,219	NHS Southampton Clinical Commissioning Group	1,902
469	Other Local Government	881
1,725	Other Public Sector	1,398
111	Other Health Bodies	423
<u>8,334</u>		<u>10,059</u>
Taxpayers		
3,530	Council Tax / Business Rates (prepayments)	3,563
<u>3,530</u>		<u>3,563</u>
General Fund - Other Creditors		
2,046	Finance Creditor (PFI and Hampshire Waste Contract)	2,526
2,285	Accumulated Absences Account	1,372
2,212	CAPITA	2,106
29,548	Sundry Creditors	24,626
8,669	Trade Creditors	9,432
<u>44,760</u>		<u>40,062</u>
Housing Revenue Account - Other Creditors		
2,553	Sundry Creditors	2,790
1,249	Trade Creditors	1,090
<u>3,802</u>		<u>3,880</u>
<u>78,670</u>	Total Creditors	<u>76,623</u>

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:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Balance at 31</u> <u>March 2015</u>	<u>Additional</u> <u>Provisions</u> <u>Made in Year</u>	<u>Amounts</u> <u>used in</u> <u>year</u>	<u>Balance at 31</u> <u>March 2016</u>
	£000	£000	£000	£000
<u>General Fund</u>				
NDR Appeals Provision	8,606	0	(238)	8,368
General Insurance Funds	5,229	702	0	5,931
Other Provisions	3,977	295	(1,150)	3,122
	17,812	997	(1,388)	17,421
Total	17,812	997	(1,388)	17,421

The Provisions are estimated to be utilised as follows:

	<u>Balance at 31</u> <u>March 2016</u>	<u>Due within 1</u> <u>Year</u>	<u>Due</u> <u>between 2</u> <u>to 5 years</u>	<u>Over 5 years</u>
	£000's	£000's	£000's	£000's
<u>General Fund</u>				
NDR Appeals Provision	8,368	5,127	3,241	0
General Insurance Funds	5,931	700	3,500	1,731
Other Provisions	3,122	2,145	883	94
	17,421	7,972	7,624	1,825
Total	17,421	7,972	7,624	1,825

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 and earlier years. Therefore, the Council's share of the provision (49%) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2016.

The estimate is a percentage of the Gross rate yield after reliefs per the NDR (based on prior years' refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals).

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 £125k and £40k respectively are met from the internal insurance funds and, with effect from 1 April 2015, all motor claims below £25k are now also met from the internal insurance funds. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers etc.), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2016 amounted to £2.1M with a closing fund balance of £5.9M. With regard to the outstanding provision figure, the council's insurers allocate a claim provision figure in respect of each claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is either closed or settled. Liability claims represent the vast majority of the total outstanding provision figure however, unlike property claims, there is no commitment on the council to pay the claim. The merits of each claim are

NOTES TO THE CORE FINANCIAL STATEMENTS

investigated and claims will only be considered where it is deemed that the council has been negligent 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 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. 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. No assumptions have been made in respect of future events and no reimbursement is expected.

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 CAA.

<u>2014/15</u> £000		<u>2015/16</u> £000
(297,824)	Balance Brought Forward	(297,538)
(10,203)	Upward revaluations of assets	(83,327)
1,116	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	32,642
(306,911)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(348,223)
2,318	Difference between fair value depreciation and historical cost depreciation	3,796
7,055	Accumulated Revaluations on Disposals	155
<u>(297,538)</u>	Balance Carried Forward	<u>(344,272)</u>

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

<u>2014/15</u> £000		<u>2015/16</u> £000
(781,897)	Balance Brought Forward	(770,704)
	Capital Financing	
(6,185)	Usable Capital Receipts	(5,192)
(31,104)	Capital Grants & Contributions	(27,223)
(18,939)	HRA Depreciation (formerly Major Repairs Allowance)	(19,832)
(6,612)	Revenue Contributions	(7,913)
	Other Movements	
5,971	Revenue Expenditure Funded from Capital under Statute	8,843
	Net gains/losses from fair value adjustments on Investment	
3,588	Properties	5,016
364	Deferred Considerations	383
588	Amortisation of Intangibles	802
56,634	Depreciation & Impairment	46,210
30,115	Disposals	6,967
(2,318)	Historic Cost Depreciation Adjustment	(3,796)
(7,055)	Accumulated Revaluations on Disposals	(155)
(7,629)	MRP	(7,558)
(6,223)	Use of Capital Receipts to Repay Loans	
(2)	Other	(1)
(770,704)	Balance Carried Forward	(774,153)

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.

<u>2014/15</u> £000		<u>2015/16</u> £000
331,390	Balance Brought Forward	390,700
19,640	Current Service Cost	21,090
860	Past Service Costs (added years)	960
14,490	Net Interest Costs	12,160
(21,280)	Payments to Pension Fund	(22,000)
45,600	Actuarial Gains /(Losses) on the Fund	(36,070)
390,700	Balance Carried Forward	366,840

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2014/15</u>		<u>2015/16</u>
£000		£000
6,486	Balance Brought Forward	(5,635)
(564)	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	961
(11,557)	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	(1,001)
<u>(5,635)</u>	Balance Carried Forward	<u>(5,675)</u>

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.

<u>2014/15</u>		<u>2015/16</u>
£000		£000
2,043	Balance Brought Forward	2,285
(2,043)	Settlement or cancellation of accrual made at the end of the preceding year	(2,285)
2,285	Amounts accrued at the end of the current year	1,372
<u>2,285</u>	Balance Carried Forward	<u>1,372</u>

f) Deferred Capital Receipts Reserve

Deferred Capital Receipts Reserve holds contracted capital receipts that have yet to be receipted.

<u>2014/15</u>		<u>2015/16</u>
£000		£000
0	Balance Brought Forward	(2,762)
(2,762)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
	Transfer to the Capital Receipts Reserve upon receipt of cash	
<u>(2,762)</u>	Balance Carried Forward	<u>(2,762)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2014/15</u>	<u>2015/16</u>	
£000	£000	£000
(16,697) Net Surplus or (Deficit) on the Provision of Services		(1,072)
Adjust net surplus or deficit on the provision of services for non cash movements		
40,878 Depreciation	41,410	
15,756 Impairment and downward valuations	4,798	
588 Amortisation	802	
252 Adjustments for effective interest rates	(317)	
364 Net PFI Debtor Adjustments	383	
(107) Increase/(Decrease) in Interest Creditors	(85)	
3,220 Increase/(Decrease) in Creditors	(2,862)	
(260) (Increase)/Decrease in Interest and Dividend Debtors	(318)	
1,617 (Increase)/Decrease in Debtors	3,403	
248 (Increase)/Decrease in Inventories	(138)	
13,710 Pension Liability	12,210	
2,598 Contributions to/(from) Provisions	(391)	
30,115 Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	6,967	
3,588 Movement in Investment Property Values	5,016	
(23) Other Items	(136)	
112,544		70,742
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(31,382) Capital Grants & Contributions credited to surplus or deficit on the provision of services	(30,908)	
6 Proceeds from the sale of short and long term investments	0	
(18,742) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(11,890)	
(50,118)		(42,798)
45,729 Net Cash Flows from Operating Activities		26,872

b) Operating Activities – Interest

<u>2014/15</u>	<u>2015/16</u>
£000	£000
Operating activities within the cashflow statement include the following cash flows relating to interest	
1,564 Interest Received	634
(15,520) Interest Paid	(15,256)

c) Cash Flows from Investing Activities

<u>2014/15</u>	<u>2015/16</u>
£000	£000
Cash Flows from Investing Activities	
(67,583) Property, Plant and Equipment Purchased	(67,142)
(47,883) Purchase of short term investments	(57,349)
15,778 Proceeds from the sale of property plant and equipment, investment property and intangible assets	11,656
33,000 Proceeds from short-term and long-term investments	45,900
37,210 Other Receipts from Investing Activities - Capital Grants & Contributions Received	34,033
(29,478) Total Cash Flows from Investing Activities	(32,902)

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Cash Flows from Financing Activities

<u>2014/15</u>		<u>2015/16</u>
£000		£000
	Cash Flows from Financing Activities	
0	Cash receipts of short and long term borrowing	8,000
13,063	Billing Authorities - Council Tax and NNDR adjustments	455
(22,157)	Repayment of Short-Term and Long-Term Borrowing	(11,869)
(1,848)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,848)
<u>(10,942)</u>	Total Cash Flows from Financing Activities	<u>(5,262)</u>

e) Make-up of Cash and Cash Equivalents

<u>2014/15</u>		<u>2015/16</u>
£000		£000
	Makeup of Cash and Cash Equivalents	
115	Cash and Bank Balances	91
54,850	Cash Investments - regarded as cash equivalents	39,097
(7,709)	Bank Overdraft	(3,224)
<u>47,256</u>		<u>35,964</u>

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

Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs proportionately to the billing authority (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%). There will therefore be a debtor/creditor position between the billing authority, the Government 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 £654K (2014/15 was £695K) as detailed in the table below.

	<u>31 March</u> <u>2015</u> £000	<u>31 March</u> <u>2016</u> £000
Salaries	544	510
Allowances	148	138
Expenses	3	6
Total	<u>695</u>	<u>654</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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. This amount was increased in 2003/04 from £40,000 and has not been updated since.

Band £	Number of Employees					
	2014/15			2015/16		
	Schools	Other	Total	Schools	Other	Total
50,000 - 54,999	36	33	69	46	54	100
55,000 - 59,999	19	19	38	28	36	64
60,000 - 64,999	22	7	29	24	4	28
65,000 - 69,999	9	6	15	13	4	17
70,000 - 74,999	4	5	9	3	5	8
75,000 - 79,999	3	5	8	4	3	7
80,000 - 84,999	1	3	4	3	2	5
85,000 - 89,999	1	2	3	1	5	6
90,000 - 94,999	1	0	1	2	2	4
95,000 - 99,999	1	0	1	2	2	4
100,000 - 104,999	0	2	2	0	1	1
105,000 - 109,999	1	1	2	0	2	2
110,000 - 114,999	0	1	1	0	0	0
115,000 - 119,999	0	2	2	0	0	0
120,000 - 124,999	0	0	0	0	2	2
125,000 - 129,999	0	0	0	0	1	1
130,000 - 134,999	0	0	0	0	1	1
135,000 - 139,999	0	0	0	0	0	0
140,000 - 144,999	0	1	1	0	0	0
145,000 - 149,999	0	0	0	0	1	1
150,000 - 154,999	0	1	1	0	0	0
165,000 - 169,999	0	0	0	0	1	1
	98	88	186	126	126	252

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 Regulation 7 of the Accounts and Audit (England) Regulations 2011. 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 2014/15.

NOTES TO THE CORE FINANCIAL STATEMENTS

2015/16

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2015/16</u>	<u>Pensions contributions (see Note 8)</u>	<u>Total Remuneration including pension contributions 2015/16</u>
	£	£	£	£	£	£	£
Chief Executive - Dawn Baxendale	166,786	-	-	-	166,786	21,849	188,635
Assistant Chief Executive (until 31/01/2016) Acting Chief Strategy Officer (from 01/02/2016) - Suki Sitaram (see note 1)	96,306	126	-	-	96,432	12,616	109,048
Acting Director of Place (until 31/01/2016) Acting Chief Operations Officer (from 01/02/2016) - Mark Heath (see note 1)	130,714	124	-	-	130,838	17,124	147,962
Director of People until 31/05/2015 - Alison Elliott (see note 2)	56,250	80	45,000	-	101,330	2,948	104,278
Service Director Children & Families from 26/09/2015 until 31/01/2016 - Kim Drake (see note 2)	38,194	-	-	-	38,194	5,003	43,198
Head of Adult Social Care from 01/06/2015 until 31/01/2016 - Mark Howell (see note 3)	72,511	80	-	-	72,591	9,499	82,090
Director of Public Health until 05/03/2016 - Andrew Mortimore	90,885	231	-	-	91,116	11,730	102,846
Acting Director of Public Health from 06/03/2016 - Bob Coates	8,234	-	-	-	8,234	1,054	9,288
Head of Legal & Democratic Services (until 31/01/2016) Service Director Legal & Governance (from 01/02/2016) - Richard Ivory (see note 4)	106,412	2,916	-	-	109,328	13,940	123,268
Chief Financial Officer until 14/02/2016 - Andrew Lowe (see note 5)	95,833	640	51,284	-	147,757	12,472	160,229
Service Director Finance & Commercialisation from 15/02/2016 - Mel Creighton (see note 5)	10,300	-	-	-	10,300	1,349	11,650
Head of Strategic Human Resources until 31/03/2016 - Mike Watts	87,523	-	-	-	87,523	11,466	98,989
	959,949	4,197	96,284	-	1,060,430	121,048	1,181,478

Note 1

The Chief Officer's Employment Panel approved this acting in position on 26/01/2016. A competitive recruitment will take place from June 2016.

Note 2

The Head of Children & Families post reported directly to the Chief Executive from 01/06/2015 in place of the Director of People. Between 01/06/2015 and 25/09/2015 this role was undertaken by Hilary Brook via an external company. Payment for this period was £60,000 excluding VAT. From 26/09/2015 a new Service Director Children & Families role was established and this reported directly to the Chief Executive until 31/01/2016.

Note 3

The Head of Adult Social Care post reported directly to the Chief Executive from 01/06/2015 in place of the Director of People. This role reported directly to the Chief Executive until 31/01/2016.

Note 4

The Head of Legal & Democratic Services Post was deleted from 01/02/2016. On 26/01/2016 the Chief Officer's Employment Panel named Richard Ivory the natural successor to the new role of Service Director Legal & Governance.

Note 5

The Acting Service Director Finance & Commercialisation assumed the responsibilities of Section 151 officer from 15/02/2016.

Note 6

Since 30/03/2015 the role of Interim Transformation & Implementation Director has been undertaken by Stephen Giacchino via an external company. Payment for 2015/16 was £194,926 excluding VAT.

Note 7

There were no bonuses paid.

Note 8

In 2015/16 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2014/15

Post Holder	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	Total Remuneration excluding pension contributions 2014/15	<u>Pensions contributions (see Note 4)</u>	Total Remuneration including pension contributions 2014/15
	£	£	£	£	£	£	£
Chief Executive - Dawn Baxendale	152,288	-	-	-	152,288	20,079	172,367
Assistant Chief Executive - Suki Sitaram	89,671	480	-	-	90,151	11,747	101,898
Director of Corporate Services - Mark Heath (see note 1)	119,697	122	-	-	119,819	15,680	135,500
Director of People - Alison Elliott	143,308	480	-	-	143,788	17,685	161,473
Director of Place (Environment & Economy) until 24/02/2015 - Stuart Love (see note 1)	118,398	-	-	-	118,398	14,187	132,585
Director of Public Health - Andrew Mortimore	81,217	379	-	-	81,596	10,639	92,235
Head of Legal & Democratic Services - Richard Ivory (see note 2)	9,145	230	-	-	9,376	1,198	10,574
Chief Financial Officer - Andrew Lowe	102,990	122	-	-	103,112	13,492	116,604
Head of Strategic Human Resources - Mike Watts	81,493	-	-	-	81,493	10,676	92,169
	898,207	1,815	-	-	900,022	115,383	1,015,405

Note 1

The Director of Corporate Services has covered the vacant Director of Place post on an interim basis since 01/03/2015.

Note 2

Since 01/03/2015 the statutory Monitoring Officer role transferred from the Director of Corporate Services to the Head of Legal & Democratic Services on an interim basis and therefore the remuneration for the Head of Legal & Democratic Services for March 2015 is disclosed here.

Note 3

There were no bonuses paid.

Note 4

In 2014/15 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £3M (£2.0M 2014/15) 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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
							£000	£000
£0-£20,000	18	21	54	60	72	81	503	823
£20,001-£40,000	3	5	17	30	20	35	556	989
£40,001-£60,000	4	2	5	12	9	14	400	660
£60,001-£80,000	1	1	0	8	1	9	73	623
£80,001-£100,000	0	0	0	0	0	0	0	0
£100,001-£150,000	3	0	2	2	5	2	622	246
£150,000+	0	0	0	1	0	1	0	155
Total	29	29	78	113	107	142	2,154	3,496

27. External Audit Costs

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

2014/15 £000	2015/16 £000
189 Fees payable to Ernst Young with regard to external audit services carried out by the appointed auditor for the year	143
32 Fees payable to Ernst Young in respect of grant claims and returns for the year	25
(21) Audit Commission refund on Fees	
4 Other Services	9
204	177

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 2015/16 are as Follows:			
	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2015/16 before Academy recoupment			162,302
Academy figure recouped for 2015/16			(38,389)
Total DSG after Academy Recoupment for 2015/16			123,913
Plus: Brought forward from 2014/15			1,201
Agreed initial budgeted distribution in 2015/16	13,556	111,558	125,114
In year adjustments		(407)	(407)
Final Budgeted Distribution for 2015/16	13,556	111,151	124,707
Less: Actual central expenditure	(13,281)		(13,281)
Less: Actual ISB deployed to schools		(111,050)	(111,050)
Carry Forward to 2016/17	275	101	376

NOTES TO THE CORE FINANCIAL STATEMENTS

29. Related Parties

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

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and Teachers' Pension Agency as disclosed in Note 34 (Defined Benefit Pension Schemes); Hampshire Police Authority precept of £9.2M and Hampshire Fire & Rescue Authority precept of £3.6M, shown in the Collection Fund Accounts, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

For the elected members and 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:

- The Chief Executive's husband is Executive Director - Assets for Stone Water Housing Association. The Council made revenue payments (Supporting People Grant) of approximately £95k to Stonewater Housing;

The Chief Executive was not involved in the decision making process for these transactions.

Amounts Due to or from Related Parties

As at 31 March 2016, significant monies outstanding from related parties were:

<u>2014/15</u>	<u>Money Owed to SCC</u>	<u>2015/16</u>
£000		£000
5,792	HM Revenues & Customs (VAT)	4,944
2,681	Hampshire County Council	407
8,473	Balance Carried forward	5,351
	* Non material balances removed from previous years figures	

There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of:

<u>2014/15</u>	<u>Money Owed by SCC</u>	<u>2015/16</u>
£000		£000
13,837	Department for Communities & Local Government	14,343
2,752	HM Revenue & Customs (PAYE & National Insurance)	1,815
1,200	Department for Work & Pensions (DWP)	2,127
1,497	Hampshire County Council	2,109
3,313	Hampshire County Council (Local Government Pensions)	3,346
1,219	NHS Southampton Clinical Commissioning Group	1,902
23,818	Balance Carried forward	25,642
	* Non material balances removed from previous years figures	

NOTES TO THE CORE FINANCIAL STATEMENTS

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2014/15</u>	<u>2015/16</u>
	£000	£000
Opening Capital Financing Requirement	425,048	427,642
Capital Investment		
Intangible assets	2,816	639
Property Plant & Equipment	63,654	66,379
PFI Scheme - Street Lighting	6,845	0
Revenue Expenditure Funded from Capital under Statute	5,971	8,843
Investment Properties	0	9
Financial Instruments	0	20
Sources of Finance		
Capital Receipts	(6,185)	(5,192)
Government grants & other contributions	(31,104)	(27,223)
HRA Depreciation (formerly Major Repairs Allowance)	(18,939)	(19,832)
Direct Revenue Financing	(6,612)	(7,913)
MRP	(7,629)	(7,558)
Use of Capital Receipts to Repay Loans	(6,223)	
HRA Depreciation - Non Dwellings		(69)
Closing Capital Financing Requirement	<u>427,642</u>	<u>435,745</u>
Explanation of Movements in Year		
Increase in underlying need to borrow (unsupported by Government financial assistance)	9,600	15,730
MRP	(7,629)	(7,558)
Use of Capital Receipts to Repay Loans	(6,223)	0
PFI Schemes	6,845	0
HRA Depreciation - Non Dwellings		(69)
Other Adjustments	1	
Increase / (Decrease) in Capital Financing Requirement	<u>2,594</u>	<u>8,103</u>

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:

	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
	<u>2015</u>	<u>2015</u>	<u>2016</u>
	<u>Original</u>	<u>Restated</u>	
	£000	£000	£000
Not later than one year	5,520	5,944	5,836
Later than one year and not later than five years	16,304	17,412	17,630
Later than five years	511,929	498,888	497,069
	<u>533,753</u>	<u>522,244</u>	<u>520,535</u>

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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. All three schools are open.

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

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 IFRIC 12 Service Concessions.

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

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>PFI - Schools</u>	<u>Hampshire Waste</u> <u>Contract</u>	<u>PFI - Street</u> <u>Lighting</u>	<u>Total</u>
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2015	58,379	10,966	25,819	95,164
Additions			0	0
Disposals				0
Revaluations				0
Impairments				0
At 31 March 2016	58,379	10,966	25,819	95,164
Depreciation & Impairment				
At 1 April 2015	(6,634)	(1,289)	(1,299)	(9,222)
Depreciation Charge for the Year	(1,327)	(644)	(860)	(2,831)
Disposals				0
Revaluations				0
Impairments				0
At 31 March 2016	(7,961)	(1,933)	(2,159)	(12,053)
Balance Sheet amount at 31 March 2016	50,418	9,033	23,660	83,111
Balance Sheet amount at 31 March 2015	51,745	9,677	24,520	85,942

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

	<u>PFI - Schools</u>	<u>Hampshire Waste</u> <u>Contract</u>	<u>PFI - Street</u> <u>Lighting</u>	<u>Total</u>
	£000	£000	£000	£000
Balance 1 April 2015	34,048	9,438	23,347	66,833
New Schemes in 2015/16			0	0
Repayments	(1,107)	(731)	(208)	(2,046)
Balance 31 March 2016	32,941	8,707	23,139	64,787
Due within 1 Year				
Balance 1 April 2015	1,107	731	208	2,046
Repayments	(1,107)	(731)	(208)	(2,046)
Due within 1 Year	1,489	790	247	2,526
Balance 31 March 2016	1,489	790	247	2,526
Long Term Creditor Balance 31 March 2016	31,452	7,917	22,892	62,261

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

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>			<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
within 1 year	1,489	2,799	2,197	790	697	5,962	247	2,553	1,145	17,879
within 2 to 5 years	4,699	10,241	12,013	3,843	2,102	25,130	1,584	9,864	4,895	74,371
within 6 to 10 years	9,953	9,880	16,586	4,074	751	30,592	3,887	10,941	6,893	93,557
within 11 to 15 years	15,163	4,910	19,884				7,388	8,001	7,868	63,214
within 16 to 20 years	1,637	139	1,711				10,033	2,663	7,089	23,272
Balance 31 March 2016	32,941	27,969	52,391	8,707	3,550	61,684	23,139	34,022	27,890	272,293

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

	<u>BUPA Care Homes</u>		<u>Total</u>
	<u>Northlands</u>	<u>Oak Lodge</u>	
	£000	£000	
within 1 year	2,182	1,452	3,634
within 2 to 5 years	8,729	5,806	14,535
within 6 to 10 years	10,911	7,258	18,169
within 11 to 15 years	5,826	7,258	13,084
within 16 to 20 years		5,588	5,588
Balance 31 March 2016	27,648	27,362	55,010

Payments for the year in respect of PFI and IFRIC 12 Service Concessions were as follows:

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Total</u>
	£000	£000	£000	£000
PFI Schools	1,108	2,893	2,398	6,399
Hampshire Waste	731	755	5,840	7,326
PFI Street Lighting	208	2,578	1,116	3,902
BUPA Care Homes				
Northlands			2,169	2,169
Oak Lodge			1,440	1,440
Totals	2,047	6,226	12,963	21,236

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. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2015/16 the City Council paid £7.0M to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.4% of pensionable pay. The figures for 2014/15 were £6.4M and 14.1%. There were no contributions remaining payable at the year end.

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

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

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

The Council participates in two post employment schemes:

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

b) Transactions Relating to Post-employment Benefits

In 2015/16 the Council paid an employer's contribution of £22.0M (2014/15 - £21.3M) into Hampshire County Council's Pension Fund. The employer's rate for 2015/16 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010 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 2017 is £21.5M.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Local Government Pension Scheme</u>		<u>Discretionary Benefits Arrangements</u>		<u>Totals</u>	
	<u>2014/15</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2015/16</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Comprehensive Income and Expenditure Statement						
<i>Cost of Services</i>						
Current service costs	19,640	21,090	0	0	19,640	21,090
Past service costs	860	960	0	0	860	960
Settlements and curtailments						
<i>Financing and Investment Income and Expenditure</i>						
Net Interest on the defined benefit liability (asset)	12,970	10,970	1,520	1,190	14,490	12,160
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	33,470	33,020	1,520	1,190	34,990	34,210
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>						
Actuarial (Gains) / Losses	43,940	(34,740)	1,660	(1,330)	45,600	(36,070)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	77,410	(1,720)	3,180	(140)	80,590	(1,860)
Movement in Reserves Statement						
Reversal of net charges made for retirement benefits in accordance with the Code	(33,470)	(33,020)	(1,520)	(1,190)	(34,990)	(34,210)
Actual amount charged against the General Fund Balance for Pensions in the Year:						
Employers' contributions payable to scheme	18,890	19,640			18,890	19,640
Retirement benefits payable to pensioners			2,390	2,360	2,390	2,360

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2016 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 £366.8M (2014/15 £390.7M) 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.

	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Present value of funded Liabilities in scheme (LGPS)	832,180	937,560	852,250	970,970	956,240
Present value of unfunded liabilities (Teachers & LGPS)	36,290	39,260	37,550	38,340	35,840
Total present value of liabilities	868,470	976,820	889,800	1,009,310	992,080
Fair value of Share of Assets in the Fund (as per Accounts)	(483,950)	(558,620)	(558,410)	(618,610)	(625,240)
Net (Asset) / Liability	384,520	418,200	331,390	390,700	366,840

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2013. 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 2016.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of Present Value of Scheme Liabilities

<u>Unfunded</u>	<u>Funded</u>		<u>Unfunded</u>	<u>Funded</u>
<u>2014/15</u>	<u>Liabilities</u>		<u>2015/16</u>	<u>Liabilities</u>
£000	2014/15		£000	2015/16
	£000			£000
37,550	852,250	Opening Balance at 1 April	38,340	970,970
	19,640	Current Service Cost		21,090
1,520	36,240	Interest costs	1,190	30,730
	5,550	Contributions by Participants		6,130
(360)	(5,580)	Actuarial Gains / (Losses) on liabilities - experience	(660)	(9,390)
0	0	Actuarial Losses/(Gains) on liabilities - demographic assumptions	0	0
2,020	86,720	Actuarial Gains / (Losses) liabilities on - financial assumptions	(670)	(36,290)
(2,390)	(24,710)	Net Benefits Paid Out	(2,360)	(27,960)
-	860	Past Service Costs (added years)		960
38,340	970,970	Closing Balance at 31 March	35,840	956,240

Reconciliation of Fair Value of Schemes Assets

<u>2014/15</u>		<u>2015/16</u>
£000		£000
(558,410)	Opening Balance at 1 April	(618,610)
(23,270)	Interest Income on plan assets	(19,760)
(37,200)	Actuarial Gains / (Losses) on plan assets	10,940
(18,890)	Contributions	(19,640)
(5,550)	Contributions by participants	(6,130)
24,710	Net benefits paid out	27,960
(618,610)	Closing Balance 31 March	(625,240)

e) Basis for Estimating Assets and Liabilities

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

	<u>2014/15</u>	<u>2015/16</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	24.5	24.6
Women	26.3	26.4
Longevity at 65 for future pensioners (currently aged 45):		
Men	26.6	26.7
Women	28.6	28.7
RPI Inflation	2.9%	2.9%
CPI Inflation	1.8%	1.8%
Rate of general long-term increase in salaries	3.3%	3.3%
Rate of increase in pensions in payment	1.8%	1.8%
Pension accounts revaluation rate	1.8%	1.8%
Rate of increase to deferred pensions	1.8%	1.8%
Discount rate	3.2%	3.4%
Commutation:		
Take-up option to convert maximum amount permitted (including any lump sum from pre 2008 service) pension entitlements	70.0%	70.0%

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

	Asset Split at 31 March 2015			Asset Split at 31 March 2016		
	Quoted (%)	Unquoted (%)	Total (%)	Quoted (%)	Unquoted (%)	Total (%)
Equities	54.9	2.9	57.8	52.9	3.4	56.3
Property	1.1	6.9	8.0	0.9	7.3	8.2
Government Bonds	25.0	0.4	25.4	25.7	0.0	25.7
Corporate Bonds	1.5	0.1	1.6	2.0	0.1	2.1
Cash	3.7	0.0	3.7	4.7	0.0	4.7
Other Assets	0.0	3.5	3.5	-0.2	3.2	3.0
Total	86.2	13.8	100.0	86.0	14.0	100.0

g) Actuarial Gain / Losses Relating to Pensions

The actuarial gains/losses, following changes to IAS19, are identified as movements on the pensions Reserve in 2015/16 and analysed into appropriate categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2016.

	Actuarial (Gain)/ Loss for Year										
	2011/12		2012/13 Restated		2013/14		2014/15		2015/16		
	£000	%	£000	%	£000	%	£000	%	£000	%	
Difference between the expected and actual return on assets	8,250	1.7	-	-	-	-	-	-	-	-	
Experience gains and losses on pension liabilities	8,440	1.0	-	-	-	-	-	-	-	-	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	59,360	6.8	-	-	-	-	-	-	-	-	of scheme liabilities
Actuarial Gains / (Losses) on plan assets			(49,690)	(8.9)	24,920	4.5	(37,200)	(6.0)	10,940	1.7	of scheme assets
Actuarial Gains / (Losses) on liabilities - experience			(620)	(0.1)	(57,690)	(6.5)	(5,940)	(0.6)	(10,050)	(1.0)	of scheme liabilities
Actuarial Losses/(Gains) on liabilities - demographic assumptions			0	0.0	(18,940)	(2.1)	0	0.0	0	0.0	of scheme liabilities
Actuarial Gains / (Losses) liabilities on - financial assumptions			68,500	7.0	(54,380)	(6.1)	88,740	8.8	(36,960)	(3.7)	of scheme liabilities
	76,050		18,190		(106,090)		45,600		(36,070)		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 is a loss of £214.3M.

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

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) Health and Safety - Asbestos

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 2015/16 there were no such relationships.

37. Capital and Revenue Grants and 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.

<u>2014/15</u>		<u>2015/16</u>
£000		£000
(19,354)	Balance Brought Forward	(21,932)
(25,417)	Amounts Received in Year	(24,335)
22,839	Amounts Applied to Finance Capital in year	21,239
<u>(21,932)</u>	Balance Carried forward	<u>(25,028)</u>

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

<u>2014/15</u>		<u>2015/16</u>	
£000		£000	£000
	Grants		
	Department for Children, Schools and Families		
(1,354)	Basic Need Grant	(3,593)	
0	Targeted Capital Fund	(1,459)	
(1,112)	Schools Devolved Formula Grant	(977)	
(2,225)	Capital Maintenance Grant	(2,239)	
(621)	Other	(543)	
<u>(5,312)</u>			<u>(8,811)</u>
0	Department of Health		(1,109)
(2,269)	Department for Communities and Local Government		(2,639)
0	Department for Environment, Food and Rural Affairs		(1,117)
0	Heritage Lottery Fund		(30)
(11,752)	Department for Transport		(7,725)
(5,434)	Department for Business Innovation & Skills		0
0	Arts Council		(2,655)
<u>(2,253)</u>	Other		<u>(45)</u>
<u>(27,020)</u>			<u>(24,131)</u>
<u>(4,362)</u>	Contributions		<u>(6,777)</u>
<u>(31,382)</u>	Total		<u>(30,908)</u>
<u>(26,176)</u>	Credited to Capital Grants and Contributions CIES		<u>(22,358)</u>
<u>(5,206)</u>	Credited to Cost of Services		<u>(8,550)</u>
<u>(31,382)</u>	Total		<u>(30,908)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2014/15</u> £000		<u>2015/16</u> £000
General Government Grants		
(59,408)	Revenue Support Grant	(42,864)
(1,944)	Housing and Council Tax Benefit Grant	(1,654)
(3,333)	DCLG - New Homes Bonus Scheme	(4,503)
(2,645)	DCLG - Waste Support Grant	0
(3,007)	Education Services Grant	(2,375)
(1,746)	Section 31 Grants	(2,208)
(1,450)	Other	(1,076)
(73,533)		(54,680)
Credited to Services		
(123,935)	Dedicated Schools Grant (DSG)	(123,506)
(15,050)	Public Health Grant	(16,130)
(114,060)	Housing Benefit Grant	(112,962)
(9,329)	Pupil Premium	(9,317)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(1,884)	Local Sustainable Transport Fund	(1,060)
(2,281)	Other Grants	(4,066)
(272,398)		(272,900)

38. Non-Domestic Rates Redistribution

Business Rate Retention has been implemented from 1 April 2013

Non Domestic Rates Redistribution		
<u>2014/15</u> £000		<u>2015/16</u> £000
(45,562)	SCC Retained Business Rates	(46,505)
(2,911)	SCC Share of Surplus/ (Deficit)	(3,370)
(1,579)	Top Up Payment	(1,609)
(50,052)		(51,484)

39. Pooled Budgets

Section 75 of the National Health Services Act 2006 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. From 1 April 2004 the Council has been required to maintain memorandum accounts in respect of pooled fund accounts and the table below shows pooled funds with income/expenditure in excess of £3M which are hosted by Southampton City Council.

Better Care Fund

NHS Southampton City Clinical Commissioning Group (SCCCG) and Southampton City Council have worked together to identify five service areas where closer integrated working and pooled budgets would lead to benefits for the population: Cluster Development; Supporting Carers; Integrated Discharge, Re-ablement and Rehabilitation; Placements and Packages and Community Solutions and Prevention.

The establishment of a S75 Better Care Fund Partnership Agreement was agreed by Southampton City Council on 20th January 2015 and by the CCG Governing Body on 28th January 2015.

The S75 document was signed by both parties at the end of March 2015. The table below shows the pooled funds and the revised budgets following agreement to budget adjustments by the Commissioning Partnership Board:

NOTES TO THE CORE FINANCIAL STATEMENTS

Revised Budgets following CPB agreement 24 th March 2016:						
		CCG	LA	Total	CCG	LA
		£000	£000	£000		
Supporting Carers	LA	1,200	134	1,334	90.0%	10.0%
Cluster Development	CCG	30,483	151	30,634	99.5%	0.5%
Re-ablement and Rehabilitation	CCG	24,622	2,643	27,265	90.3%	9.7%
Total		56,305	2,928	59,233	95.1%	4.9%

The formal S75 partnership agreement entered into by CCG and Southampton City Council and the establishment of the Commissioning Partnership Board as the joint body overseeing the governance and operation of the activities within the S75 constitute a joint arrangement.

A memorandum of accounts will be produced by the host body for each of the three schemes within the S75. Each partner will reflect in its accounts its share of the assets, liabilities, income and expenditure relating to the S75.

Supported Carers

This scheme is hosted by the LA, with 90% contributions from CCG and 10% from LA. Although the CCG is the majority contributor, the statutory responsibilities in this area remain with the LA and therefore they were considered to be the most appropriate host. The services commissioned under this scheme include CCG contracts with private sector providers; LA contracts with 3rd sector providers and LA in-house provision.

<u>2014/15</u>		<u>2015/16</u>	
£000	Better Care Fund, Carers Service	£000	
	Funding - Contributions / Grants		
0	Brought Forward	0	
0	Southampton City Council	(124)	
0	Southampton Clinical Commissioning Group	(1,170)	
0		(1,294)	
0	Expenditure	1,294	
0	Carried Forward	0	

Cluster Development

This scheme is hosted by the CCG, with 99% contributions from CCG and 1% from LA. The services commissioned under this scheme include CCG contracts with NHS providers; CCG contracts with independent sector providers, GPs and the 3rd sector; and LA in-house provision (funded by the CCG, these were previously S256 agreements).

<u>2014/15</u>		<u>2015/16</u>	
£000	Better Care Fund, Clusters Service	£000	
	Funding - Contributions / Grants		
0	Brought Forward	0	
0	Southampton City Council	(149)	
0	Southampton Clinical Commissioning Group	(30,315)	
0		(30,464)	
0	Expenditure	30,464	
0	Carried Forward	0	

Re-ablement and Rehabilitation

This scheme is hosted by the CCG, with 92% contributions from CCG and 8% from LA. The services commissioned under this scheme include CCG contracts with NHS Providers; CCG contracts with independent sector providers; LA in-house provision (some of which were previously S256 agreements).

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2014/15</u>		<u>2015/16</u>
£000	Better Care Fund, Rehab and Reablement Service	£000
	Funding - Contributions / Grants	
0	Brought Forward	0
0	Southampton City Council	(2,822)
0	Southampton Clinical Commissioning Group	(24,766)
<u>0</u>		<u>(27,588)</u>
0	Expenditure	27,588
<u>0</u>	Carried Forward	<u>0</u>

Residual, Domiciliary Care & Continuing Care Services

Partnership between Southampton City Council and the Clinical Commissioning Group (previously PCT) to commission residential, domiciliary care and continuing care services for former residents of a Locality Based Hospital Unit in Southampton.

<u>2014/15</u>		<u>2015/16</u>
£000	Locality Based Hospital Units	£000
	Funding - Contributions / Grants	
(17)	Brought Forward	(6)
(1,693)	Southampton City Council	(1,669)
(1,777)	Southampton Clinical Commissioning Group	(1,737)
<u>(3,487)</u>		<u>(3,412)</u>
3,481	Expenditure	3,403
<u>(6)</u>	Carried Forward	<u>(9)</u>

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.

The main legacies are:

- **Chipperfield Trust** – Purchase works of art for Southampton City Art Gallery. In September 2012, the Trustees confirmed revised arrangements for the governance of the Trust and approved the establishment of the Advisory Committee following an advertisement process through appropriate publicity in relative publications and on the Council website. The Council received a significant number of applications and subsequently group leaders, or their delegates, reviewed the applications and confirmed appointments.
- **L C Smith Bequests** – Helps maintain the Merchant Navy's Memorial in Holyrood Church.
- **Miss Orris Bequest** – Purchase of works of art.
- **Aldridge Bequest** – To facilitate the access of disadvantaged pupils to personal enrichment experiences.

Minor legacies which consist of several funds of small value as follows

- **Ida Bany Bequest** – Purchase of books about America.
- **George Knee Fund** – Provision of special annual prizes for Bitterne Park School.
- **De Gee** – Annual treat for children of the former Hollybrook Children's home.
- **Dora Linton** - Helps maintain the Merchant Navy's Memorial in Holyrood Church.
- **Cemeteries Legacy** – Helps maintain Cemeteries.

NOTES TO THE CORE FINANCIAL STATEMENTS

Other funds are:

- **Wessex Slaughterhouse Board** – The Council has responsibility of the former constituent authorities to pay pensions to former employees. Any balance or liability remaining when these responsibilities have been discharged will be shared between the constituent authorities

	<u>Income</u> £000	<u>Expenditure</u> £000	<u>Assets</u> £000
Chipperfield Trust	(1)	0	(171)
LC Smith Bequest	(0)	0	(34)
Miss Orris Bequest	0	25	(84)
Aldridge Bequest	(8)	6	(199)
Minor Trust Funds	(0)	0	(38)
Trust Funds Total	(9)	31	(526)
Wessex Slaughterhouse Board			(93)
Total	(9)	31	(619)

HOUSING REVENUE ACCOUNT

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

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

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

Comprehensive Income and Expenditure Statement

<u>2014/15</u>		<u>Notes</u>	<u>2015/16</u>
<u>£000</u>	<u>Expenditure</u>		<u>£000</u>
17,339	Repairs and Maintenance		15,417
15,886	Supervision and Management		16,384
7,058	Special Services		7,422
4,338	Rents, Rates, Taxes and Other Charges		3,778
18,939	Depreciation	7	19,901
(11,433)	(Revaluation) / Impairment of non-current assets	7	(53,865)
45	Debt management costs		38
194	Movement in the allowance for bad debts		340
<u>52,366</u>	Total Expenditure		<u>9,415</u>
	<u>Income</u>		
(71,481)	Dwellings Rent	1	(73,397)
(1,178)	Non-Dwelling Rents		(1,128)
(5,243)	Tenant Charges for Services & Facilities		(5,007)
(1,096)	Leaseholder Charges for Services & Facilities		(974)
(906)	Contributions Towards Expenditure		(894)
<u>(79,904)</u>	Total Income		<u>(81,400)</u>
(27,538)	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		(71,985)
375	HRA services' share of Corporate and Democratic Core		379
<u>(27,163)</u>	Net Expenditure/ (Income) for HRA Services		<u>(71,606)</u>
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(3,021)	(Gain) or loss on the sale of HRA non-current assets		(3,973)
0	Capital Receipts not matched by Disposal of Assets		0
420	Investment Property Revaluation Movements	7	(71)
5,277	Interest payable and similar charges		5,117
(26)	Interest and investment income		(24)
1,790	Pensions interest cost and expected return on pension assets	10	1,490
(2,102)	Capital grants and contributions receivable		(748)
<u>(24,825)</u>	(Surplus) / Deficit for the Year on HRA Services		<u>(69,815)</u>

HOUSING REVENUE ACCOUNT

Statement of Movement on the HRA Balance

<u>2014/15</u> £000		<u>2015/16</u> £000	£000
(2,278)	Balance on the HRA at the end of the previous year		(2,000)
(24,825)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(69,815)	
25,105	Adjustments between accounting basis and funding basis under statute	69,815	
		<hr/>	
280	(Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves.	0	
(2)	Transfer to / (from) reserves	<hr/> 0	
278	(Increase) / decrease in year on the HRA		0
(2,000)	Housing Revenue Account Surplus Carried Forward		(2,000)

Note to Statement of Movement on the HRA Balance

<u>2014/15</u> £000		<u>2015/16</u> £000	£000
	Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA		
2,103	Capital grants and contributions applied	748	
3,021	(Gain) or loss on the sale of HRA non-current assets	3,973	
(13)	Amortisation of Item 8 Discount	(13)	
11,013	Impairment and Revaluation of Non Current Assets	53,865	
0	Impairment and Revaluation of Investment Properties	71	
(4,321)	Net Charges made for retirement benefits in accordance with IAS 19	(4,192)	
18,939	Transfer to Major Repairs Reserve	19,832	
30,742		<hr/>	74,284
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
(18,939)	Financing of HRA Non Current Assets (Major Repairs Reserve)	(19,832)	
2,628	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,696	
5,130	Principal Repayments	5,135	
5,544	Capital Expenditure funded by the HRA	<hr/> 7,532	
(5,637)			(4,469)
25,105	Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year		69,815

HOUSING REVENUE ACCOUNT

1. Council House Rents

At 31 March 2016, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 3.91% (31 March 2015 – 4.80%). The total arrears were £2.687M (31 March 2015 - £2.909M). Rents written off during the year amounted to £375,000 (last year £399,000).

The main sources of rent income after allowing for voids of £1.3M (last year £0.95M) are set out in the following table:

<u>2014/15</u>		<u>2015/16</u>
£000		£000
30,351	Rent met by Tenants	32,306
41,130	Rent Rebates	41,091
71,481		73,397

2. Major Repairs Reserve

<u>Total</u>		<u>Land</u>	<u>Dwellings</u>	<u>Other</u>	<u>Total</u>
<u>2014/15</u>		<u>2015/16</u>	<u>2015/16</u>	<u>2015/16</u>	<u>2015/16</u>
£000		£000	£000	£000	£000
0	Opening Balance	0	0	0	0
(18,939)	Receipts in Year	0	(19,832)	0	(19,832)
18,939	Payments in Year	0	19,832	0	19,832
0	Closing Balance	0	0	0	0

3. Housing Stock

During the year 1.76% (1.39% for 2014/15) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent was £86.85 a week (£83.92 for 2014/15). The stock at the year-end was made up as follows:

<u>2014/15</u>		<u>2015/16</u>
16,702	Stock at 1st April	16,562
(117)	Less: Sales	(117)
11	Plus: Conversions	0
(34)	Other/Demolitions	(130)
16,562	Stock at 31st March	16,315
	Consisting of:	
5,252	Houses	5,190
11,294	Flats	11,109
16	Bungalows	16
16,562		16,315

HOUSING REVENUE ACCOUNT

4. Capital Expenditure

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

Capital Spending		
2014/15		2015/16
£000		£000
30,225	Housing Stock	38,818
30,225	Total Capital Expenditure	38,818
Capital Expenditure Source of Finance		
£000		£000
3,639	Capital Receipts	4,695
1,350	Grants	0
18,939	Transfer from Major Repairs Reserves	19,833
753	Contributions	748
5,544	Direct Revenue Funding	7,532
0	Unsupported Borrowing	6,010
30,225	Total Financing	38,818

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have 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 2015/16 the Council received £2.27M from right to buy sales that can be utilised on new build affordable housing projects.

2014/15		2015/16
£000		£000
5,049	Opening Balance at 1 April	7,127
	Receipts in Year:-	
	Sale of Assets	
6,207	Council Housing	6,825
1,120	Land, Buildings & Equipment	1,962
47	Repayment of Advances	29
12,423		15,943
(151)	Allowable deduction arising from Disposal	(146)
12,272		15,797
	Application in Year:-	
(446)	Inter Portfolio Transfer	(466)
(3,639)	Financing of new HRA Capital Expenditure	(4,695)
(1,060)	Pooled Receipts	(1,218)
	Other Adjustments	(860)
7,127	Closing Balance at 31 March	8,558

6. Impairment Allowance for Bad Debts

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

2014/15		2015/16
£000		£000
348	MRC Bad Debt Provision	342
1,899	Rents Bad Debt Provision	1,808
2,247		2,150

HOUSING REVENUE ACCOUNT

7. Property Plant and Equipment

The Department of the Environment, Transport and the Regions (DETR) Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail in **Note 1q) (Accounting Policies)**.

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2015 was £1,706M, 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 2016.

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

Movements in Fixed Assets During 2015/16							
	Property, Plant and Equipment (PPE)				Assets Held		Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Total PPE	for Sale	Investment	
Cost or Valuation							
At 1 April 2015	527,622	4,100	648	532,370	0	7,786	540,156
Additions	38,818			38,818			38,818
Disposals	(4,837)		(648)	(5,485)		(6)	(5,491)
Reclassifications	786			786			786
Revaluations	82,363	365		82,728		71	82,799
Impairments	(47,734)			(47,734)			(47,734)
At 31 March 2016	597,018	4,465	0	601,483	0	7,851	609,334
Depreciation and Impairment							
At 1 April 2015	(18,871)		(579)	(19,450)	0	0	(19,450)
Depreciation charge for year	(19,832)		(69)	(19,901)			(19,901)
Disposals			648	648			648
Reclassifications				0			0
Revaluations	18,871			18,871			18,871
Impairments				0			0
At 31 March 2016	(19,832)	0	0	(19,832)	0	0	(19,832)
Balance Sheet amount at 31 March 2016	577,186	4,465	0	581,651	0	7,851	589,502
Balance Sheet amount at 31 March 2015	508,751	4,100	69	512,920	0	7,786	520,706
Nature of Asset Holding							
Owned	577,186	4,465	0	581,651	0	7,851	589,502
Finance Lease							0
PFI							0
	577,186	4,465	0	581,651	0	7,851	589,502

8. Direct Revenue Financing Reserve

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

2014/15 £000		2015/16 £000
	Direct Revenue Financing Reserve	
0	Direct Revenue Financing Balance Brought Forward	
(5,544)	Contribution From Revenue In Year	(7,532)
5,544	Applied for Capital	7,532
0	Balance Carried Forward	0

HOUSING REVENUE ACCOUNT

9. Minimum Revenue Provision (MRP)

A voluntary MRP payment of £5.2M was made in 2015/16 (£5.1M – 2014/15).

10. Pensions

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

<u>Local Government Pension Scheme</u>		
	<u>2014/15</u>	<u>2015/16</u>
	<u>£000</u>	<u>£000</u>
Income and Expenditure Account		
Net Cost of Service		
Current service costs	2,425	2,584
Past service costs	106	118
<i>Financing, Investment Income and Expenditure</i>		
Interest Cost	1,790	1,490
Amounts to be Met from HRA		
Movement on pensions reserve	(1,693)	(1,496)
Actual Amount Charged Against HRA		
Employer's contributions payable to scheme	<u>2,628</u>	<u>2,696</u>

11. Item 8 Credit and Debit (General) Determination

Item 8 Debit and Credit Determination sets out the entries to be accounted for within the Housing Revenue Account and are required by legislation under the local Government and Housing Act 1989. The Table below summarises Item 8 Credits and Debits made to the Housing Revenue Account.

<u>Item 8 Credit and Debit (General) Determination</u>		
<u>2014/15</u>		<u>2015/16</u>
<u>£000</u>		<u>£000</u>
(26) Interest and Investment Income		(24)
11,013 Impairments and Revaluation of Fixed Assets		53,936
(13) Amortisation of Item 8 Discount		(13)
<u>10,974</u>		<u>53,899</u>
£000's		
5,277 Interest payable and similar charges		5,117
18,939 Depreciation		19,901
(11,013) Impairments and Revaluation of Fixed Assets		(53,936)
5,130 Principal Repayments		5,135
45 Debt management costs		38
<u>18,378</u>		<u>(23,745)</u>
<u>29,352</u>	Net Item 8 (Credit)/ Debit	<u>30,154</u>

THE COLLECTION FUND

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic rates and 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 2016				
2014/15		2015/16		
£000	Council Tax	Notes	£000	£000
	Income			
(90,181)	Income due from Council Tax Payers	2		(93,962)
	Transfers (to)/ from the General Fund			
(196)	- Hardship Relief		(189)	
2	- Local Council Tax Discount		1	
0	- Transitional Relief		0	
(194)				(188)
(90,375)				(94,150)
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax			
1,782	- Southampton City Council		3,205	
213	- Hampshire Police Authority		384	
87	- Hampshire Fire & Rescue Service		153	
2,082				3,742
(88,293)	Total Council Tax Income			(90,408)
	Expenditure			
	Precepts			
73,467	- Southampton City Council Precept	4	77,269	
8,800	- Hampshire Police Authority Precept	4	9,255	
3,501	- Hampshire Fire & Rescue Authority Precept	4	3,611	
85,768				90,135
	Bad and Doubtful Debts			
760	- Write Offs	6	885	
1,107	- Provisions	6	512	
1,867				1,397
87,635	Total Council Tax Expenditure			91,532
(658)	Council Tax - Deficit / (Surplus) for the Year			1,124
(2,612)	Council Tax - Deficit / (Surplus) Brought Forward			(3,270)
(3,270)	Council Tax Deficit / (Surplus) Carried Forward			(2,146)
	Business Rates			
	Income			
(103,845)	Income Collectable from Business Ratepayers			(103,064)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR			
(8,647)	- Southampton City Council		2,369	
(8,823)	- Central Government - DCLG		2,417	
(176)	- Hampshire Fire & Rescue Service		48	
(121,491)	Total Business Rates Income			4,834
	Expenditure			
1,493	- Payment to DCLG - Transitional Arrangements		417	
46,492	- Payment to DCLG - Business Rate Retention		47,453	
45,562	- SCC Business Rates Retention		46,505	
930	- HFRA Precept		949	
0	- Interest on Overpayments		43	
318	- Costs of Collection	5	314	
94,795				95,681
	Bad and Doubtful Debts			
473	- Write Offs	6	581	
221	- Provisions	6	410	
2,417	- Appeals Provision	7	(485)	
3,111				506
97,906	Total Business Rates Expenditure			96,187
(23,585)	Business Rates (Surplus) / Deficit For the Year			(2,043)
17,801	Business Rates - Deficit / (Surplus) Brought Forward			(5,784)
(5,784)	Business Rates Deficit / (Surplus) Carried Forward			(7,827)
(9,054)	Total Collection Fund (Surplus) / Deficit			(9,973)

THE COLLECTION FUND

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.

Retained business rates scheme, the main aim of which is to give Council's a greater incentive to grow businesses in the Borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NDR tax base.

The scheme allows the Council to retain a proportion of the total NDR received. The Southampton share is 49% with the remainder paid to Central Government (50%) and Hampshire Fire and Rescue Authority (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 was 60,675 (58,267 in 2014/15). The tax base for was calculated as follows:

Council Tax Base			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Disabled	38	5/9	21
Band A	18,636	6/9	12,424
Band B	24,644	7/9	19,167
Band C	17,818	8/9	15,838
Band D	7,639	9/9	7,639
Band E	2,577	11/9	3,150
Band F	1,250	13/9	1,806
Band G	377	15/9	628
Band H	1	18/9	2
	<u>72,980</u>		<u>60,675</u>

Taking the total Band D equivalents of 60,675 and multiplying this by the standard Council Tax of £1,532.26 gives a total estimated income from taxpayers of £93.0M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for was 96.95%, giving a net Council Tax Base of 58,825. Multiplying this by the standard Council tax of £1,532.26 gives the total precepts on the Collection Fund of £90.1M. (57,044 times by £1,503.54 - £85.8M 2014/15) which compares to the actual net income of £94.9M (£90.2M – 2014/15).

THE COLLECTION FUND

3. Non-Domestic Rates (NDR)

Business Rates retention scheme was introduced from 1 April 2013 whereby Business Rates collected by Southampton City Council are shared between:

- Central Government (50%);
- Southampton City Council (49%);
- Hampshire Fire and Rescue Authority (1%).

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. Southampton was deemed to be a top-up authority.

In addition to the top-up, 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.

The Council in 2015/16 estimated NDR Income of approximately £94.9M (£93.0M – 2014/15), £47.5M (£46.5M – 2014/15) payable to Central Government, £46.5M (£45.6M – 2014/15) retained by the Council, and £0.9M (£0.9M – 2014/15) payable to Hampshire Fire and Rescue Authority. The Rateable Value on 31 March 2016 was £253.1M and the Business Rate Multiplier for the year 48p in the £, giving gross rates before reliefs of £121.5M.

4. Precepts

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

5. Allowance for NDR Collection

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

6. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.4M (£1.9M in 2014/15). At 31 March 2016 the provision totalled £8.7M (SCC share £7.5M) against a liability of £11.7M (SCC share £10.0M) (2014-15 £8.2M (SCC share £7.0M) against a liability of £11.2M (SCC share £9.6M)).

The contribution to the NDR Impairment Allowance was £1.0M in (£0.7M in 2014/15). At 31 March 2015 the provision totalled £1.9M (SCC share £0.9M) against a liability of £4.6M (SCC share £2.2M) (2014-15 £1.5M (SCC share £0.7M) against a liability of £3.7M (SCC share £1.8M)).

7. NDR Appeals Provision

The contribution from the appeals provision was (£0.5M) (£2.4M in 2014/15). At 31 March 2016 the provision totalled £17.1M (SCC share £8.4M) (2014/15 £17.6M (SCC share £8.6M)).

8. Collection Fund Balance

The Total Collection Fund surplus carried forward for the year is (£9.9M). A year end surplus on Council Tax of (£2.1M) and (£7.8M) on NDR.

(2014-15 Surplus carried forward £9.1M – Council Tax surplus (£3.3M) – NDR surplus of (£5.8M))

Council Tax

The year end balance on the Council Tax element of the Collection Fund of £2.1M surplus can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £1.8M and is shown as a revenue balance in the Balance Sheet. The remaining £0.3M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

THE COLLECTION FUND

NDR

The year-end balance on the NDR element of the Collection Fund of £7.8M surplus can be apportioned to Central Government £3.9M (50%), Hampshire Fire and Rescue Authority £0.1M (1%) and Southampton City Council £3.8M (49%). These amounts are included within the adjustments required to derive NDR Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund adjustment balance between 1 April 2015 and 31 March 2016 was an increase of £0.04M – (£0.96M) reduction due to Council Tax and £1.00M increase relating to NDR - giving a surplus balance of £5.7M being carried forward to 2016/17. The £0.04M surplus has been credited to the Comprehensive Income and Expenditure Account, reversed out, in the Adjustments between accounting basis and funding basis under regulations note 10, to the Collection Fund Adjustment Account Unusable Reserves Note 22 d).

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 Asset Charges

Charges to service revenue accounts to reflect the cost of Property Plant and Equipment used in the provision of services.

4. 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.

5. 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.

6. Capital Receipts

The proceeds from the sale of capital assets.

7. 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.

8. Consistency

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

9. Contingency

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

10. Council Tax

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

11. Creditor

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

12. 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.

13. Depreciation

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

GLOSSARY

14. 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.

15. 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.

16. Financial Assets

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

17. Finance Lease

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

18. Financial Instrument

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

19. Financial Liability

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

20. Financial Reporting Standard (FRS)

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

21. General Fund

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

22. 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.

23. 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.

24. Housing Revenue Account

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

25. Impairment

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

26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

GLOSSARY

27. 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).

28. Long Term Investments

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

29. Long-Term Contracts

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

30. Materiality

This is one of the main accounting concepts. It ensures that the 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.

31. 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.

32. Money Market Funds

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

33. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by Local Authorities and paid to Central Government (50%), Southampton City Council (49%) and Hampshire Fire and Rescue Authority (1%)

34. 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.

35. Net Expenditure

Total expenditure for a service less directly related income.

36. 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.

37. 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.

38. Operating Leases

A lease other than a finance lease (see 17).

39. 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.

GLOSSARY

40. 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.

41. 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.

42. Property, Plant and Equipment

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

43. 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.

44. 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.

45. 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.

46. Revenue Expenditure / Income

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

47. Statement of Standard Accounting Practice (SSAP)

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

48. Stocks

Comprise the following categories:

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

49. Supported Borrowing

Borrowing that is supported by Government financial assistance.

50. Unsupported Borrowing

Borrowing that is not supported by Government financial assistance.

51. 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 CIPFA/SOLACE Framework ‘Delivering Good Governance in Local Government’. A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.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. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood 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 2016 and up to the date of approval of the statement of accounts.

ANNUAL GOVERNANCE STATEMENT

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the council's governance arrangements include arrangements for:

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

Delivery of key outcomes and priorities is guided by a framework of strategic plans and policies which are developed and agreed at three different levels:

- Sub-regional level, which cover more than one local authority;
- City level by 'Southampton Connect' and with our partners; and
- Council level for services which we deliver or commission.

The sub-regional level 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 the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

Southampton Connect is the strategic partnership in the city which seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision, 'Southampton – A city of opportunity where everyone thrives'.

See the following link:

http://www.southampton-connect.com/images/Updated%20CITY%20STRATEGY-15-25_tcm23-376953.pdf

The three key priorities identified in the Southampton City Strategy 2015-2025 ("City Strategy") have been developed through focusing on the challenges facing the city, regional aspirations and feedback from residents via the City Survey (conducted in early 2014). The City Strategy also identifies a number of 'cross-cutting' themes that require the collective action of Southampton Connect partners to progress.

Southampton Connect, who meet on a monthly basis, work closely with the following key city partnerships to deliver the vision:

- Health and Wellbeing Board; and
- Safe City Partnership; and
- Employment, Skills & Learning Partnership.

These partnerships enable the council to work with organisations from the public, private and voluntary sectors on cross-cutting issues, which the council cannot tackle alone. In addition, there are 3 statutory partnerships: the Youth Offending Service Board, the Southampton Local Safeguarding Children Board and the Southampton Local Safeguarding Adults Board.

The Southampton City Council Strategy 2014-2017 ("Council Strategy") is a key strategic document that outlines how the council will contribute towards the city vision. The Council Strategy sets out council's priorities for the period and the required outcomes and associated success measures by 2017.

ANNUAL GOVERNANCE STATEMENT

The council has identified and agreed seven priorities with each having specific outcomes and measures aligned to them and explain where the council will focus its attention to deliver to the vision.

During 2015-16 these were further refined to 4 priority outcomes which will be reflected in a revised Council Strategy to be presented to Council for approval in September 2016

See the following link:

[http://www.southampton.gov.uk/Images/Council%20Plan%202014\(13Nov\)_tcm63-367231.pdf](http://www.southampton.gov.uk/Images/Council%20Plan%202014(13Nov)_tcm63-367231.pdf)

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

The Council Strategy 2014-17 was formally approved by Council in July 2014 and reflects feedback from residents through the City Survey conducted early 2014. The Council Strategy is however subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors. See comments above

The council has adopted a Code of Corporate Governance ("CCG") which identifies, in one document, how the council ensures that it runs itself in a lawful, structured, ethical and professional manner. The CCG is administered by the Service Director – Legal and Governance and is subject to an annual 'light touch' review with any recommendations presented to the Governance Committee for approval.

c) Translating the vision into objectives for the authority and its partnerships

The Council Strategy identifies the key priorities, expected outcomes and success measures however the City Council continues to face significant financial challenges with a projected funding gap set to widen further due to increasing demand driven by demographics and long standing social, health and economic pressures faced by many residents, particularly our most vulnerable residents.

It is recognised that in order to deliver the outcomes and priorities of the Council Strategy 2014-17 the council needs to radically change how it does business and to embrace new ways of working. A new operating model and Transformation Programme, approved by Cabinet and Full Council in February 2015, is being implemented and includes digital transformation, restructuring of the council and a systematic redesign of how services are delivered and managed. This will include the council becoming less dependent on central government funding, increasing income generation and regularly commissioning the services needed based on outcomes.

d) Measuring the quality of services for users, ensure they are delivered in accordance with the authority's objectives and to ensure they represent the best use of resources and value for money

Performance against the key success measures is actively monitored and reported to both the Council's Management Team, Head of Strategy Unit and the Overview and Scrutiny Management Committee. Performance reports, in the form of performance scorecards with 'RAG' (Red/Amber/Green) status indicators, are published quarterly on the council's website.

In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured 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.

ANNUAL GOVERNANCE STATEMENT

The council's 'Contract Procedure Rules', which form part of the council's Constitution, govern how the council buys the supplies, services and works that it needs.

e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements

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

f) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The council's Constitution contains both an Officer Code of Conduct and a Members' Code of Conduct which set out the expected behaviour and standards to be adhered to. In addition, a 'Code of Conduct and Disciplinary Rules' are in place for employees. The Code of Conduct sets out the expected standards of behaviour for all employees and the Disciplinary Rules set out examples of behaviour which are considered to be a breach of the Code of Conduct or a breach of the employee's contract of employment.

g) Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

The council's Constitution details how the council operates, including how decisions are made and the role of Overview and Scrutiny. It also includes an Officer Scheme of Delegation setting out the powers, duties or functions that may be exercised under Delegated Powers. The Service Director – Legal and Governance conducts an annual review of the council's constitutional arrangements, which is considered by the council's Governance Committee, in its governance role, prior to submission to the Annual General Meeting of the council in May.

h) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

The council has a 'Risk Management Policy and Strategy' 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. The document is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. The policy and strategy is presented to the Governance Committee for review and approval.

The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment. In addition, the Risk Management Policy and Strategy summarises the principal roles and responsibilities recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

ANNUAL GOVERNANCE STATEMENT

i) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

The council is committed to safeguarding public funds and has in place an anti-fraud and anti-corruption policy statement and strategy. The strategy summarises the responsibilities of Members, Chief Officers and employees and outlines the process to be followed where there is suspicion of financial irregularity. The strategy applies equally to all organisations with which the Council has joint working relations.

The council also has in place an Anti-Money Laundering policy and a Bribery Policy which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. These policies and strategies are subject to periodic review.

j) Ensuring effective management of change and transformation

The council's Transformation Programme is led by the Transformation Implementation Director who reports to the Chief Executive. The Programme is governed by the Transformation and Improvement Board ("TIB") which is chaired by the Cabinet Member lead for Transformation and supported by the Council Management Team ("CMT").

Progress and delivery of the overall Programme and individual projects is in the first instance monitored at Transformation Director and Portfolio Lead level, and thereafter by CMT and the 'TIB' which is led by Cabinet Members. CMT and TIB review the validity and achievability of transformation projects and provide approval (or not) to projects. Work in 2015-16 has included progress on digital transformation, renegotiating the contract with the council's Strategic Services Partner (Capita), centralising business operations and restructuring the council.

A fundamental part of the Transformation Programme is the implementation of a new operating model for the Council which is aligned with, and focused on, delivering the outcomes and priorities of Council Strategy 2014-17. The new operating model, which is to be fully implemented by 2017, is intended to create a sustainable council that is:

- **More self-reliant** – over time becoming less dependent on central government funding and increasing income generation.
- **Focused on outcome-based services** - regularly commissioning the services needed based on outcomes for residents, and making evidence based decisions on those services that need to be stopped or changed.
- **Quicker to respond** – more able to adapt to changing circumstances and residents' needs including improving the digital offer to our customers.
- **Equipped to work in new ways** – implement new ways of working for council staff, seeking new ways of reducing procurement spend and better use of assets.
- **Providing a mixed economy of service providers** – taking different approaches to delivering services, taking ideas from all sectors as well as the public sector.

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

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2010)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access 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

ANNUAL GOVERNANCE STATEMENT

the agreed budget is robust and that the finance function is fit for purpose.

l) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (2010)'

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit (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).

m) Ensuring effective arrangements are in place for the discharge of the monitoring officer function

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

n) Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Chief Executive is designated as the Head of Paid Service with responsibility for leading the Council Management Team in driving forward the strategic agenda, set by Cabinet. The Chief Executive together with the Council Management Team is responsible for the leadership and direction of the council including the co-ordination and commissioning of council-wide activity and programme management.

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

The council has a formally constituted Governance Committee that undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance statement process.

p) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The council's Constitution sets out the way in which the council runs and the processes it uses. The Constitution ensures that these procedures are efficient, transparent and accountable. The law requires some of these processes, 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 Articles include Decision Making and Finance Contract and Legal Matters with more detailed procedures and codes of practice provided in separate rules and protocols. These include Access to Information Procedure Rules, Council Procedure Rules and Executive Procedure Rules.

ANNUAL GOVERNANCE STATEMENT

In addition, 'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

q) Whistle blowing and receiving and investigating complaints from the public

The council has in place 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

There is a Corporate Complaints policy and procedure in place which is published on the council's website and sets out how a complaint will be dealt with. In accordance with legislation there are separate procedures in place in respect of Adults' and Children's Social Care. There is also an 'Unreasonably Persistent and Vexatious Customer Behaviour Policy'. Complaints about Members are dealt with under the Members' Code of Conduct.

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

A Member Development Strategy is in place which sets out how Member Learning and Development will be identified, delivered and managed. The Strategy refers to the following key values:

- Development will be available to all Members;
- Development will be based on the identified and agreed needs of the individual Member;
- All Members will contribute to identifying and agreeing their development needs
- Development will be delivered through a variety of methods and times to ensure equality of access; and
- An acknowledgement that Members may have transferable skills that can be used to help them perform or develop their Council role.

In addition, a comprehensive induction programme for new Members is in place and delivered following elections.

The identification of Senior Officer development needs forms part of the performance appraisal process and will be an integral part of the new 'Performance Contracts' (introduced as part of the New Operating Mode). of considerable importance during this time of transformation and change

A 'Manager's Toolkit' is in place which consists of a range of tools that both inform and guide managers and supervisors with regard to best practice in undertaking key processes of management and to enable a consistent approach. The Toolkit is also able to be used by newly appointed managers as part of their induction with established managers able to use the toolkit as a refresher. The toolkit, which is based on best practice, consists of different types of learning opportunities and materials.

In order to better reflect the new requirements of our transforming council, the Learning and Development Plan is to be run on a 6 monthly cycle (April – September and October to March) and will be based on training that is essential from the council perspective (e.g. due to law / regulation or mandate) and the skills / knowledge required by staff to carry out their work role to the appropriate standard.

ANNUAL GOVERNANCE STATEMENT

This “essential learning” will be identified through:

- the creation of Learning and Development Pathways (beginning with the main occupational groupings across the council) and the developing role of managers
- the continued evolution of the Managers’ Toolkit, reflecting the core behaviours and provision of key learning opportunities for new skills as well as the embedding of role requirements (e.g. HR Policy Case Study workshops) and accreditation of learning

The Learning and Development team will work with stakeholder managers / subject matter experts to inform and construct the pathways and identify methods of training provision which are affordable, sustainable and accessible with the new training plan format commencing October 2016.

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

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 includes information on:

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

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the 2015-16 Pre Budget consultation process helped shape the final 2016-17 budget report. 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 council has established a ‘People’s Panel’ which now has a membership of over 1,000, and an average response rate of 59% from them over 25 polls and surveys. This Panel comprises a group of residents who are interested in taking part in consultations and other opportunities to express their views on council services, health services and living in the city, the results of which will be used to inform future decisions and services. For example, a People’s Panel event on housing was held in November 2015 whereby participants were invited to discuss four important questions about housing in the city, and had the opportunity to listen to and question a panel of experts.

The council also track residents’ views over time to see how changes in the city affect their opinions and experience of the city. Members of the People’s Panel may also be asked to take part in various forms of activity including surveys, quick polls, interviews and workshops.

Southampton City Council is the first council to develop a ‘Citizen Science’ project with around 100 members of the People’s Panel. ‘Citizen Science’ is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants are supported by the Council’s Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. Citizen Science has been used often in the natural sciences but the social science application is more recent and this is one of the largest cohorts of participants ever in the UK for a project of this type. The project is focussing on what prevents residents from recycling and what could help them recycle more. The participants

ANNUAL GOVERNANCE STATEMENT

have framed research questions and are in the process of designing methodologies.

The council also seeks to engage the input of children and young people and works closely with schools. An 'Imagine the Future' event was held in 2015, which brought together 200 children and young people from Southampton schools. This event is to be held again 2016 with aim to increase its reach to the young people of the city with up to 300 children joining in.

There is ongoing work to develop a strong focus on youth participation in the city which includes facilitating creative focus groups with children and young people to get their views and suggestions on the draft Participation and Engagement Strategy, which will influence the development of the final strategy. In addition, as part of the council's youth offer, a 'Youth Forum Southampton' continues to be developed which is intended as a platform for children and young people to have their say on a variety of topics which affect both them and their families.

This is in addition to the Southampton City Residents Survey which took place in 2014 and will be repeated every other year for the next five years. The survey, undertaken in partnership with other key organisations working in the city including the local Clinical Commissioning Group, Police, NHS Trusts, Fire Service and further education bodies, is an important step in building a better understanding of our residents.

t) Enhancing the accountability for service delivery and effectiveness of other public service providers

A number of the council's key services are delivered in partnership with external service providers. All such arrangements include a suite of key performance indicators and are based upon a culture of continuous improvement recognising the need to achieve a balance between the council's ongoing financial challenges and long term strategic aims. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured 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, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a centralised Contract Management Team which provides a senior management interface between the council and our partnership service providers.

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

An Internal Audit review on 'Partnership Arrangements' was undertaken in 2014 which focussed on the adequacy and coverage of partnership guidance to address key risk exposure to the organisation. The overall opinion was that 'adequate assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives'.

The report did however identify the need for the council's 'Partnership Code' to be updated and enhanced to emphasise resourcing, governance, accountability, performance and alignment to strategic aims when entering into partnership arrangements. The 'Partnership Code', which forms part of the council's Constitution, is being updated and will be presented to Full Council in September 2016 for review and approval as part of the annual review of the council's constitution.

Support, including planning, performance monitoring and projects, for following key partnerships has been brought together into the council's new Strategy Unit, to ensure coordinated and effective support is provided to all Boards:

ANNUAL GOVERNANCE STATEMENT

- Southampton Connect
- Health and Wellbeing Board
- Safe City Partnership
- Southampton Employment, Skills and Learning Partnership

The chairs of these partnerships meet once a quarter to review shared learning and joint working opportunities across the partnerships.

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 – Strategic Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Chief Strategy Officer, Service Director – Legal & Governance (Monitoring Officer) and 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 where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Service Director being 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 – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual 'Self-Assessment Statement' by Service Directors which cover the key processes and systems that comprise the council's governance arrangements and is 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 Strategy, 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

ANNUAL GOVERNANCE STATEMENT

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 (CARRIED FORWARD FROM 2014-15)
	Information Governance arrangements need to be reviewed and aligned with new organisational structures and operational arrangements.
	Planned Action: Review and implement appropriate arrangements to provide adequate organisational resources in each service area to enable compliance and oversight of information governance, to include monitoring and reviewing compliance, report breaches, ensuring action plans are implemented. An operational review is also taking place as a result of a voluntary audit by the Information Commissioners Office in January 2016. The Action Plan (as agreed by CMT) will be in effect by September 2016 and will address this issue.
	Responsible Officer: Service Director - Legal & Governance Target for completion: Sept 2016
2.	Governance Issue
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.
	Planned Action: A 'Corporate Standards' Training programme, which will incorporate the above policies, is being developed and will be rolled out to managers in 2016-17.
	Responsible Officer: HR Strategy Manager (Organisational Development and Reward) Target for completion: March 2017
3.	Governance Issue
	There is need for more a formal, robust and consistent approach to succession planning, performance appraisal and performance monitoring across the organisation.
	Planned Action: Phase 2 of the council's management restructure (which form parts of the council's wider Transformation Programme) will see the introduction of a more robust and consistent approach to performance management, via individual performance contracts, and will also seek to address future succession planning issues. In light of significantly reduced resources succession planning remains an issue.
	Note: Phase 1 of the programme involving the restructure of the senior management team from

ANNUAL GOVERNANCE STATEMENT

	21 to 13 was implemented in February 2016.
	Responsible Officer: Council Management Team 2016
	Target for completion: Sept 2016
4.	Governance Issue
	The Partnership Code, which forms part of the council's constitution needs to be reviewed and updated to reflect the current approach.
	Planned Action: A new Partnership Code has been drafted and will be presented, as a supplementary report on constitution, at the September 2016 Council meeting.
	Responsible Officer: Service Director -Intelligence, Insight & Communications 2016
	Target for completion: Sept 2016
5.	Governance Issue
	Reduced overall capacity and loss of some experienced staff coupled with implementation of a new organisational structure will present challenges in terms of the demands on managers
	Planned Action: To be addressed as part of the development of a Workforce Strategy to be considered in September 2016.
	Responsible Officer: HR Strategy Manager (Organisational Development and Reward) 2016
	Target for completion: Sept 2016

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

.....
Dawn Baxendale
 (Chief Executive)
 On behalf of Southampton City Council

.....
Councillor Simon Letts
 (Leader of the Council)