

# Draft Statement of Accounts

2013-14



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## FINANCIAL STATEMENTS 2013/14

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## FINANCIAL FOREWORD

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently, this foreword explains some of the statements and sections included within this document and provides a summary of the Council's financial performance for 2013/14.

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

The Council's Financial Statements concentrate on clear and accurate reporting of the financial position of the Council in relation to a particular year. They do not however aim to fulfill the role of an annual report of a company. This would duplicate much of the work already published in other documents produced by the Council – in particular the Council Strategy, the Medium Term Service and Financial Plan.

The statements and notes are:	Page
<b>Responsibilities for the Financial Statements</b>	11
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Comprehensive Income and Expenditure Statement</b>	12
This statement reports the net cost for the year of all the services provided by the Council, including the Housing Revenue Account (HRA) but excluding the Collection Fund. It demonstrates how the costs have been financed from general government grants and income from local taxpayers.	
<b>Movement in Reserves Statement</b>	13
This statement shows the movement in the year on the different reserves held by the Council analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.	
<b>Balance Sheet</b>	14
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31 March 2014.	
<b>Cash Flow Statement</b>	15
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.	
<b>Notes to the Core Financial Statements (including Accounting Policies)</b>	16 – 81
<b>Housing Revenue Account (HRA)</b>	82 – 88
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
<b>Collection Fund</b>	89– 92
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
<b>Trust and Other Funds</b>	93 – 96
This statement shows receipts and payments of funds for which the Council acts as trustee.	
<b>Glossary</b>	97 – 101

## FINANCIAL FOREWORD

### FINANCIAL SUMMARY

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

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

### REVENUE

#### General Fund Revenue Account Summary

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

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

#### Comparing Actual Spending to Budget

The Council Tax Requirement for the year was set at £70.0M which gave a Band D council tax of £1,475.42 for Southampton City Council.

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

- £51.0M of business rates (Non-Domestic Rates),
- £72.7M of general government grant (Revenue Support Grant),
- £1.0M Collection Fund surplus, and
- £70.0M of council tax income.

The Comprehensive Spending Review (CSR) announcement in October 2010 and the provisional Local Government Finance Settlement in December 2010 set out unprecedented reductions in Local Government funding for the four year period 2011/12 to 2014/15, with the decrease front loaded. Announcements in December 2011 confirmed that spending reductions on the planned scale were necessary to meet the actual reductions in Government grant. Headline figures within the CSR 2010 assumed a 28% reduction in local government spending over the four year period but the distribution of the reductions has meant that the Council has experienced reductions of more than 35% during the period from 2011/12 to 2014/15.

Furthermore, since the Council set its 2013/14 budget in February 2013, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council, with a rigorous assessment of vacant posts being undertaken prior to external recruitment to ensure that only essential posts were recruited to. In addition to this recruitment freeze on all but essential vacant posts, a moratorium on all non essential spend was put in place to yield additional in-year savings to support the overall budget.

The final outturn for the year was such that a contribution was made to general balances of £23.5M.

Overall, there was a net reduction in the use of the Authority's reserves and general balances in the year of £11.8M compared with the working budget.

## FINANCIAL FOREWORD

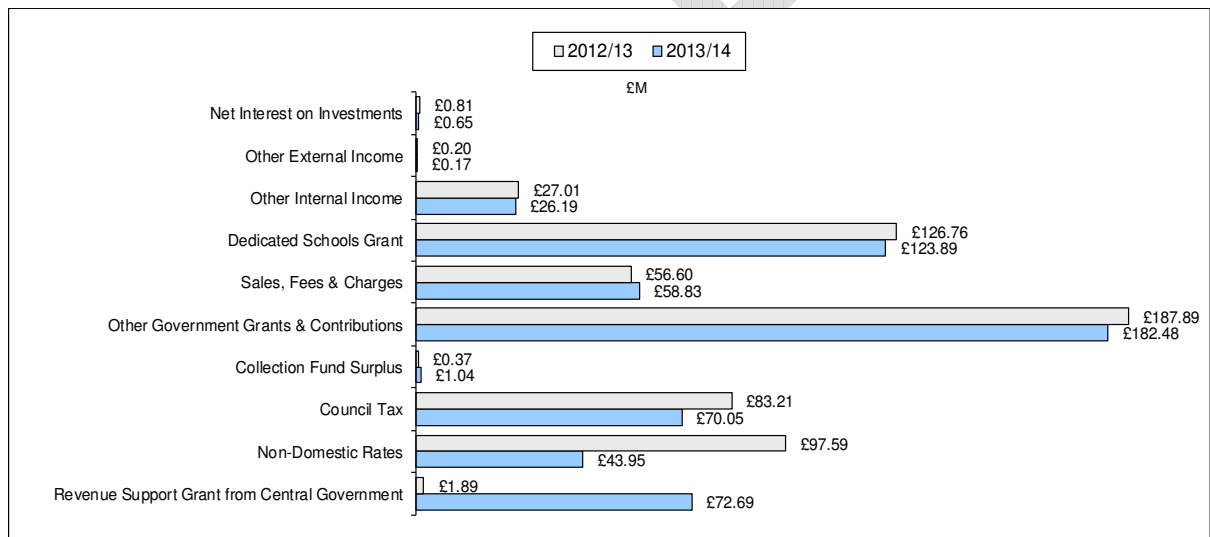
### Explaining the Big Differences

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

	£000's
Savings in Portfolio budgets	(6,207)
Reduction in MRP due to change in Adjustment A treatment	(4,527)
Unused Contingency	(411)
Other Variances	(702)
<b>Total</b>	<b><u>(11,847)</u></b>

### Where the Money Came From

The following chart provides an analysis of the Council's main sources of income for the year which totalled £580.0M and also shows the comparative figures for 2012/13 (£582.3M):



## FINANCIAL FOREWORD

### Where the Money Went

The following table provides a high level summary of the Council's net expenditure:

<b>GENERAL FUND REVENUE EXPENDITURE 2013/14</b>				
<b>Revised Budget</b>		<b>Working Budget</b>	<b>Actual Expenditure</b>	<b>Variance</b>
<b>£000's</b>		<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
67,133	Adult Services	63,105	61,908	(1,197)
3,819	Change & Communities	4,092	2,549	(1,543)
35,277	Children's Services (Education & Children's Safeguarding)	38,082	38,805	723
6,039	Economic Development & Leisure	6,131	5,936	(195)
27,143	Environment & Transport	27,261	26,545	(716)
1,764	Housing & Sustainability	1,866	1,843	(23)
3,564	Leader's Portfolio	3,543	3,101	(441)
42,876	Resources	43,408	41,105	(2,302)
<b>187,615</b>	<b>Sub-total for Portfolios</b>	<b>187,487</b>	<b>181,793</b>	<b>(5,695)</b>
26,670	Other Items	22,774	22,262	(513)
<b>214,285</b>	<b>Portfolio Total</b>	<b>210,262</b>	<b>204,055</b>	<b>(6,207)</b>
663	Levies & Contributions	663	661	(2)
(12,429)	Capital Asset Management	(12,429)	(17,083)	(4,654)
(136,558)	Other Expenditure & Income	(140,085)	(141,069)	(983)
<b>65,961</b>	<b>NET GF SPENDING</b>	<b>58,411</b>	<b>46,564</b>	<b>(11,847)</b>
4,088	Draw (from) /Addition to Balances	11,638	23,485	11,847
<b>70,049</b>	<b>Budget Requirement</b>	<b>70,049</b>	<b>70,049</b>	<b>0</b>

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

	<b>£000's</b>
Salaries & Wages & Other Employee Costs	94,295
Premises Costs	11,695
Transportation Costs	3,868
Supplies & Services	90,229
Internal Charges	7,135
Other Direct Costs (Includes School Allocations)	225,690
<b>Total Expenditure</b>	<b>432,912</b>
Internal Income	(24,260)
Fees, Charges & Rents	(51,322)
Grants / Contributions	(175,537)
<b>Total Net Expenditure</b>	<b>181,793</b>



## FINANCIAL FOREWORD

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

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

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

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

### Housing Revenue Account Summary

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

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

#### Comparing Actual Spending to Budget

The budget for the year was set at £0.962M deficit and the actual outturn for the year was a deficit of £1.011M, which represents additional net expenditure of £49,000. The budgeted deficit was to be funded from available balances. However, the outturn for day to day service expenditure and income items (excluding DRF and Depreciation) was a deficit for the year of only £14,000, which represents an under spend of £0.948M. Rather than continue to carry forward a working balance of over £3.2M, an additional £0.997M of revenue was allocated to fund the capital programme to reduce the need for borrowing. The HRA working balance at 31 March 2014 is £2.278M

#### Explaining the Big Differences

The major variances are detailed below:

	£000's
Increase in Repairs	617
Savings in Supervision and Management	(882)
Reduction in Capital Financing Charges	(828)
Other Variances	145
<b>Variation on day to day services</b>	<b>(948)</b>
Increase in Capital Funding from DRF and Depreciation	997
<b>Total Variation</b>	<b>49</b>

## FINANCIAL FOREWORD

### Where the Money Came From and Where the Money Went

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

<b>HRA REVENUE EXPENDITURE 2013/14</b>			
	<b>Budget £000's</b>	<b>Actual £000's</b>	<b>Variance £000's</b>
Dwelling Rents	67,715	67,663	52
Other Rents	1,326	1,213	113
<b>Total Rental Income</b>	<b>69,041</b>	<b>68,876</b>	<b>165</b>
Service Charge Income from Tenants	1,616	1,417	199
Service Charge Income from Leaseholders	572	821	(249)
Interest Received	27	34	(7)
<b>Total Income</b>	<b>71,256</b>	<b>71,148</b>	<b>108</b>
Responsive Repairs	10,400	11,374	974
Housing Investment	5,865	5,508	(357)
<b>Total Repairs</b>	<b>16,265</b>	<b>16,882</b>	<b>617</b>
Rents Payable	130	190	60
Debt Management	69	46	(23)
Supervision & Management	20,623	19,741	(882)
Capital financing charges	11,381	10,553	(828)
Depreciation	16,116	18,261	2,145
Direct Revenue Financing	7,634	6,486	(1,148)
<b>Total Expenditure</b>	<b>72,218</b>	<b>72,159</b>	<b>(59)</b>
<b>Surplus / (Deficit for Year)</b>	<b>(962)</b>	<b>(1,011)</b>	<b>49</b>

The above summary of Housing Revenue Account expenditure, which reflects the Council's actual year end position of £49,000 overspent, can no longer be directly reconciled to the HRA Income and Expenditure Statement due to the changes in format introduced in 2006/07. At this point the Income and Expenditure Account was replaced by the Comprehensive Income and Expenditure Statement and the Statement of Movements on the HRA Balance.

## CAPITAL

### General Fund Capital Summary

The capital account shows the income and expenditure transactions made to:

- Buy or sell land, property or other assets,
- Build new property,
- Improve our properties or other assets, and/or
- Provide grants or loans to others for the above type of activity.

## FINANCIAL FOREWORD

### Comparing Actual Spending to Budget

The budget for the year, following all approved changes, was to spend £63.6M on capital projects and final capital spend for the year was £9.3M less than the budget at £54.3M.

The table below summarises the capital expenditure for the year for each Portfolio:

	Budget £000's	Actual £000's	Variance £000's
Education & Change	21,748	17,926	(3,822)
Economic Development & Leisure	6,595	4,792	(1,803)
Environment & Transport	29,586	27,068	(2,518)
Health & Adult Social Care	859	892	33
Housing & Sustainability	2,051	1,835	(216)
Resources	2,762	1,740	(1,022)
<b>Total General Fund</b>	<b>63,601</b>	<b>54,253</b>	<b>(9,348)</b>

### Explaining the Big Differences

The final spend for the year was £9.3M lower than the budget mainly due to slippage on schemes which will be spent in 2014/15. Some of the major slippage was on the following schemes:

- Accommodation Strategy £0.9M
- Increased School Places £0.8M
- Early Years Expansion £0.7M
- Academies Capital Works £0.7M
- Highways £0.6M
- Schools Devolved Capital £0.6M
- Schools Capital Maintenance £0.5M
- Smart Ticketing £0.4M
- Bridge to Prosperity £0.4M
- Bitterne Park 6<sup>th</sup> Form £0.3M

### Where the Money Came From

The table below shows how capital spending was financed:

	£000's
Unsupported Borrowing	10,785
Capital Receipts	5,784
Capital Grants	29,894
Contributions	2,827
Direct Revenue Financing	4,963
<b>Total</b>	<b>54,253</b>

## FINANCIAL FOREWORD

### Housing Revenue Account (HRA) Capital Summary

The HRA capital account shows the income and expenditure transactions made to:

- Improve the Council's properties,
- Build new property,
- Improve the neighbourhoods surrounding the property, and
- Implement estate regeneration projects.

#### Comparing Actual Spend to Budget

The budget for the year was to spend £33.9M on capital projects. The final capital spend for the year was £3.3M less than budget at £30.6M. The table below summarises the capital expenditure for the year:

	Budget £000's	Actual £000's	Variance £000's
Estate Regeneration	3,844	3,645	(199)
New Build	669	195	(474)
Safe Wind & Weather Tight	6,862	5,952	(910)
Modern Facilities	13,342	13,600	258
Well Maintained Communal Facilities	6,578	5,350	(1,228)
Warm & Energy Efficient	2,634	1,845	(789)
<b>Total</b>	<b>33,929</b>	<b>30,587</b>	<b>(3,342)</b>

#### Explaining the Big Differences

The final spend for the year was £3.3M lower than the budget mainly due to slippage on schemes which will be spent in 2014/15. Some of the major slippage was on the following schemes:

- Safe, Wind and Weather Tight £1.2M
- Warm and Energy Efficient £0.8M
- Well Maintained Communal Facilities £0.7M
- New Build – Erskine Court Rebuild £0.3M
- Estate Regeneration £0.2M

#### Where the Money Came From

The table below shows how capital spending was financed:

	£000's
Capital Receipts	5,701
Capital Grants / Contributions	139
Direct Revenue Financing	6,486
Depreciation (formerly Major Repairs Allowance)	18,261
<b>Total</b>	<b>30,587</b>

## FINANCIAL FOREWORD

### RESERVES AND BALANCES

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

2012/13 £000's		2013/14 £000's
7,038	Useable Capital Receipts Reserve	6,391
9,140	Capital Grants & Contributions Unapplied	7,222
26,388	Ear Marked Revenue Reserves	28,587
29,923	General Fund Balance	53,409
3,289	Housing Revenue Account	2,278
<u>75,778</u>		<u>97,887</u>

The majority of these reserves are already earmarked to fund commitments that the Council has made, to fund capital spend or the Housing Revenue Account. The only reserve that can be utilised to support the General Fund budget is the General Fund Balance. Whilst the General Fund Balance has increased significantly during the year, this will fall as planned commitments are funded.

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 2014 therefore exceeds the approved minimum level.

### ACCOUNTING ISSUES AND DEVELOPMENTS

#### Strategic Services Partnership with Capita

The ten year Strategic Services Partnership contract with Capita, entered into on 1 October 2007, was subject to extensive renegotiations in 2013/14, resulting in significant savings, and benefits, and an extension of the contract for an additional five years in accordance with the original agreement.

#### Minimum Revenue Provision (MRP)

Each year local authorities are required to set aside some of their revenue for the provision of debt. This is known as the MRP. The provision must be prudent but the regulations governing these arrangements do not define what "prudent provision" is. And while there is guidance on MRP produced by the government, it is made clear that it is the local authority's decision as to what a prudent level of provision is.

An issue for Southampton City Council has arisen as a result of MRP calculation on borrowing that is mainly associated with debt transferred from Hampshire County Council to Southampton when it became a unitary authority in 1997. With the implementation of the prudential framework in 2004, the objective was that the move from the former MRP scheme to the new arrangements should not increase a local authority's MRP liability. The mechanism for achieving neutrality between the old and the new system is known as "Adjustment A". Consistent with the guidance, the original adjustment in 1 April 2004 was based on the value of the debt at that time. Following that, in the interests of prudence, the adjustment was reduced each year in line with the actual debt outstanding. This had the effect of increasing the amount of minimum revenue provision for each financial year.

A review of the Council's calculation of the MRP has taken place and, following consideration of the guidance, the view is that this was not the appropriate approach. This is because the guidance states that the, "Adjustment A" should not be varied from year to year. With this in mind the Council is justified in recalculating its MRP retrospectively. Additionally, the guidance states that if the calculation of the MRP results in an anomalous or disadvantageous result it may modify its approach to achieve the intended neutrality.

## FINANCIAL FOREWORD

In this case, by being “overly prudent” in the past, the Council has provided for a greater charge from the general fund to MRP. With the benefit of hindsight, this was not the most appropriate course of action and it is considered that action to adjust the position is justified.

To resolve this, the Council has recalculated the MRP for the years 2006/07 to 2013/14, using the value attributed to “Adjustment A” in 2004/05 which gives a cumulative reduction in the Council’s MRP of £4.5m (£3.9m relates to prior years). The MRP for 2013/14 has therefore been reduced by £4.5m.

### Local Government Finance

#### Non-Domestic Rate Income (NDR)

From 1 April 2013 the arrangements in respect of NDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton’s case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined “Start-Up” funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years and appeals that were not resolved before that date.

The Council, in preparing the 2013/14 NDR 1 a return to Government of the estimate of the projected income for the year, grossly underestimated, along with the vast majority of councils across the country, the impact of potential losses for prior years’ appeals as at 31 March 2013 at £5.8M.

A detailed analysis of refunds made over a number of years, and appeals yet to be settled, indicated that the starting appeals provision for 2013/14 should have been approximately £21.4M, of which £14.1M related to prior years’ appeals.

This underestimate of the starting appeals provision, along with a substantial reduction to Southampton’s rateable value, has resulted in an NDR Collection Fund deficit in 2013/14 of approximately £17.8M of which Southampton’s share is £8.7M (49%). The Council has opted not to spread the impact of the appeals provision over five years, as allowed under the recently laid regulations, resulting in a safety net payment to the Council of approximately £1.6M.

#### Universal Credit

Universal Credit (UC) is one of the key benefit changes introduced by the Welfare Reform Act 2012. 2016 will see the phased introduction of a single benefit to replace six benefits currently paid by DWP, HM Revenue & Customs (HMRC) and Local Authorities. This includes Housing Benefit currently paid by Local Authorities. The introduction of UC will have a significant impact on the residents of the city as they will need to adjust to receiving a single monthly benefit payment which will include an element to cover their housing costs. They will need to manage their finances on a monthly basis, pay their rent to their landlord and apply and manage their benefit claim online. UC will have a significant impact on the Council as it will no longer receive Housing Benefit, direct from Central Government, with respect to Council Dwellings Rent Rebates which in 2013/14 amounted to approximately £40M.

# 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 Chief Financial Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

## 2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/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.
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed).

The CFO has also:

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

## 3. Certification of the Accounts

I certify that the Financial Statements presents the true and fair position of Southampton City Council at 31<sup>st</sup> March 2014 and its income and expenditure for the year ended 31<sup>st</sup> March 2014.

Signed **A Lowe** \_\_\_\_\_ Date 30 June 2014  
Chief Financial 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 **D Burke** \_\_\_\_\_ Date 30 September 2014  
Chair, Governance Committee

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

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

			<u>2012/13</u> <u>Restated</u>						<u>2013/14</u>		
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
£000's	£000's	£000's		Notes	£000's	£000's		£000's	£000's	£000's	
89,009	(24,584)	64,425	Adult Social Care		92,251	(28,148)		64,103			
28,001	(21,292)	6,709	Central Services to the Public		8,909	(2,465)		6,444			
4,101	(740)	3,361	Corporate and Democratic Core		4,017	(667)		3,350			
5,632	(1,854)	3,778	Non Distributable Costs		6,195	(1,787)		4,408			
229,679	(164,020)	65,659	Children's and Education Services		215,880	(160,395)		55,485			
24,386	(6,638)	17,748	Cultural and Related Services		24,213	(6,418)		17,795			
34,300	(14,617)	19,683	Environment and Regulatory Services		33,082	(15,149)		17,933			
7,549	(3,184)	4,365	Planning and Development Services		8,439	(3,463)		4,976			
			Public Health		14,297	(14,652)		(355)			
28,140	(16,666)	11,474	Highways and Transport Services		28,346	(17,436)		10,910			
50,994	(71,497)	(20,503)	Local Authority Housing		57,625	(73,869)		(16,244)			
10,206		10,206	Local Authority Housing-impairment loss on dwellings		(12,956)			(12,956)			
127,799	(114,844)	12,955	Other Housing Services		129,840	(118,499)		11,341			
			<b>Exceptional Items</b>	6							
35,531		35,531	Impairment on General Fund Assets		30,716			30,716			
129		129	Equal Pay		56			56			
<b>675,456</b>	<b>(439,936)</b>	<b>235,520</b>	<b>Cost of Services</b>	8	<b>640,910</b>	<b>(442,948)</b>		<b>197,962</b>			
		43,328	Loss / (Gain) on the disposal of Non Current Assets	12c				37,379			
		655	Contributions to Other Local Public Bodies					661			
		827	Contributions of Housing Capital Receipts to Government Pool					940			
		<b>44,810</b>	<b>Other Operating Expenditure</b>					<b>38,980</b>			
		(6,781)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14				(1,269)			
		15,406	Interest payable and similar charges	11				15,356			
		(2,246)	Interest and Investment Income	11				(689)			
		17,790	Net interest on the defined benefit liability (asset)	37b				18,210			
		<b>24,169</b>	<b>Financing, and Investment Income &amp; Expenditure</b>					<b>31,608</b>			
		(83,479)	Council Tax Income					(72,012)			
		(97,591)	Non - Domestic Rates Redistribution					(43,954)			
		(26,603)	General Government Grants	40				(90,016)			
		(24,657)	Capital Grants and Contributions	40				(21,481)			
		<b>(232,330)</b>	<b>Taxation and Non-Specific Grant Income</b>					<b>(227,463)</b>			
		<b>72,169</b>	<b>Deficit / (Surplus) on the Provision of Services</b>					<b>41,087</b>			
		(26,402)	Surplus or deficit on revaluation of non current assets	22a				(9,059)			
		13,548	Impairment losses on non-current assets charged to the revaluation reserve					1,520			
		(154)	Surplus or deficit on revaluation of available for sale financial assets					239			
		18,190	Remeasurements of the net defined benefit liability (asset)	37g				(106,090)			
		<b>5,182</b>	<b>Other Comprehensive Income and Expenditure</b>					<b>(113,390)</b>			
		<b>77,351</b>	<b>Total Comprehensive Income and Expenditure</b>					<b>(72,303)</b>			



# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

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

	General Fund Balance £000's	Earmarked Reserves £000's	Housing Revenue Account £000's	Capital Receipts Reserve £000's	Major Repairs Reserve £000's	Capital Grants & Contributions Unapplied £000's	Total Usable Reserve £000's	Unusable Reserves £000's	Total Authority Reserve £000's
<b>Balance at 1 April 2012</b>	(23,530)	(28,987)	(2,621)	(4,796)	0	(10,061)	(69,995)	(772,135)	(842,130)
Prior Year Restatement		(556)				29	(527)	(29)	(556)
	(23,530)	(29,543)	(2,621)	(4,796)	0	(10,032)	(70,522)	(772,164)	(842,686)
<b>Movement in Reserves during 2012/13</b>									
Surplus on provision of services (accounting basis)	76,416		(4,247)			0	72,169		72,169
Other comprehensive Income and Expenditure							0	5,182	5,182
<b>Total Comprehensive Income and Expenditure</b>	76,416	0	(4,247)	0	0	0	72,169	5,182	77,351
Adjustments between accounting basis and funding basis under regulations (note 10)	(82,381)		6,308	(2,242)		892	(77,423)	77,423	0
<b>Net Increase before Transfers to Earmarked Reserves</b>	(5,965)	0	2,061	(2,242)	0	892	(5,254)	(772,164)	(777,418)
Transfers to / (from) earmarked reserves (note 9)	(428)	3,155	(2,729)				(2)	2	0
<b>(Increase) / Decrease in Year</b>	(6,393)	3,155	(668)	(2,242)	0	892	(5,256)	82,607	77,351
<b>Balance at 31 March 2013</b>	(29,923)	(26,388)	(3,289)	(7,038)	0	(9,140)	(75,778)	(689,557)	(765,335)

	General Fund Balance £000's	Earmarked Reserves £000's	Housing Revenue Account £000's	Capital Receipts Reserve £000's	Major Repairs Reserve £000's	Capital Grants & Contributions Unapplied £000's	Total Usable Reserve £000's	Unusable Reserves £000's	Total Authority Reserve £000's
<b>Balance at 1 April 2013</b>	(29,923)	(26,388)	(3,289)	(7,038)	0	(9,140)	(75,778)	(689,557)	(765,335)
<b>Movement in Reserves during 2013/14</b>									
Surplus on provision of services (accounting basis)	63,616		(22,529)				41,087		41,087
Other comprehensive Income and Expenditure							0	(113,390)	(113,390)
<b>Total Comprehensive Income and Expenditure</b>	63,616	0	(22,529)	0	0	0	41,087	(113,390)	(72,303)
Adjustments between accounting basis and funding basis under regulations (note 10)	(89,299)		23,540	647		1,918	(63,194)	63,194	0
<b>Net Increase before Transfers to Earmarked Reserves</b>	(25,683)	0	1,011	647	0	1,918	(22,107)	(50,196)	(72,303)
Transfers to / (from) earmarked reserves (note 9)	2,197	(2,199)					(2)	2	0
<b>(Increase) / Decrease in Year</b>	(23,486)	(2,199)	1,011	647	0	1,918	(22,109)	(50,194)	(72,303)
<b>Balance at 31 March 2014</b>	(53,409)	(28,587)	(2,278)	(6,391)	0	(7,222)	(97,887)	(739,751)	(837,638)

# THE FINANCIAL STATEMENTS

## Balance Sheet

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

<b>31 March 2013</b>		<b>31 March 2014</b>		
£000's		Notes	£000's	£000's
1,213,681	Property Plant & Equipment	12	1,187,807	
196,716	Heritage Assets	13	196,372	
120,580	Investment Property	14	112,352	
1,387	Intangible Assets		2,464	
3,687	Long Term Investments	16 b)	3,447	
12,652	Long Term Debtors	17 a)	8,992	
<b>1,548,703</b>	<b>Long Term Assets</b>			<b>1,511,434</b>
15,188	Short Term Investments	16 b)	18,229	
7,716	Assets held for Sale	15	4,627	
810	Stock (Inventories)		813	
57,671	Short Term Debtors	17 b)	58,670	
(15,161)	- Impairment of Short Term Debtors	17 b)	(15,902)	
50,917	Cash & Cash Equivalents	18	48,208	
<b>117,141</b>	<b>Current Assets</b>			<b>114,645</b>
(5,361)	Cash & Cash Equivalents	18	(6,261)	
(56,692)	Short Term Borrowing	16 b)	(32,195)	
(63,360)	Short Term Creditors	19	(64,401)	
(1,450)	Provisions	20	(7,124)	
<b>(126,863)</b>	<b>Current Liabilities</b>			<b>(109,981)</b>
(54,447)	Long Term Creditors	16 b)	(60,010)	
(5,618)	Provisions	20	(8,090)	
(254,815)	Long Term Borrowing	16 b)	(243,310)	
(16,976)	Other Long Term Liabilities			
(13)	- Deferred Liabilities	16 b)	(16,297)	
(23,577)	- Deferred Capital Balances		(9)	
(418,200)	- Cap. Grants & Conts Receipts in Advance	40	(19,354)	
	- Pension Fund Liability	22 c)	(331,390)	
<b>(773,646)</b>	<b>Long Term Liabilities</b>			<b>(678,460)</b>
<b>765,335</b>	<b>Net Assets</b>			<b>837,638</b>
7,038	<b>Useable Reserves</b>			
9,140	Useable Capital Receipts Reserve	10	6,391	
26,388	Cap. Grants & Conts Unapplied	10	7,222	
	Earmarked Revenue Reserves	9	28,587	
	Revenue Balances			
29,923	General Fund	10	53,409	
3,289	Housing Revenue Account	10	2,278	
<b>75,778</b>				<b>97,887</b>
304,614	<b>Unuseable Reserves</b>			
626	Revaluation Reserves	22 a)	297,824	
803,687	Available-for-Sale Financial Instruments Reserve		387	
(103)	Capital Adjustment Account	22 b)	781,897	
(418,200)	Financial Instruments Adjustment Account		(438)	
1,315	Pension Reserve	22 c)	(331,390)	
(2,382)	Collection Fund Adjustment Account	22 d)	(6,486)	
	Accumulated Absences Account	22 e)	(2,043)	
<b>689,557</b>				<b>739,751</b>
<b>765,335</b>				<b>837,638</b>

Signed: **D Burke** \_\_\_\_\_ **30 September 2014**  
Chair, Governance Committee

## THE FINANCIAL STATEMENTS

### Cash Flow Statement

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

<u>2012/13</u> <u>Restated</u> £000's		<u>2013/14</u> Notes	£000's
(72,169)	Net surplus or (deficit) on the provision of services		(41,087)
139,695	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	155,981
(49,418)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	(50,086)
<b>18,108</b>	<b>Net Cash Flows From Operating Activities</b>		<b>64,808</b>
(27,915)	Net Cash flows from Investing Activities	23 c)	(23,012)
10,780	Net Cash flows from Financing Activities	23 d)	(45,405)
<b>973</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>(3,609)</b>
44,583	Cash and cash equivalents at the beginning of the reporting period	23 e)	45,556
<b>45,556</b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e)	<b>41,947</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

The Financial Statements summarise the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Financial Statement by the Accounts and Audit (England) Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

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

### b) Accruals of Income and Expenditure

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

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

### c) Acquisitions and Discontinued Operations

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

#### Public Health Transfer

The Health and Social Care Act 2012 has provoked the most radical restructure of the National Health Service (NHS) since its inception. As part of its implementation, Primary Care Trusts (PCTs) have been abolished and replaced with Clinical Commissioning Groups (CCGs). One of the key outcomes of this move has been to transfer Public Health responsibilities to Local Authorities from 1 April 2013. This places a responsibility on the Council to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health services the Council received £14.3M as a ring fenced grant in 2013/14. This figure will increase to £15.1M in 2014/15.

### d) Cash and Cash Equivalents

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### e) Exceptional Items

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

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

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

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

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

### h) Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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, as a 'pass through' cost, the full cost to Capita of the employer's contributions they have incurred, in effect meaning that the Council has funded the employer's contributions incurred for transferred Capita staff.

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

- Assets and Liabilities of the fund will not be split between 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 2013/14 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

The change in the net pensions' liability is analysed into 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 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 £331.4M in 2013/14 and by £418.2M in 2012/13.

The total liability of £331.4M 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 37 (Defined Benefit Pension Schemes)**.

### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### **i) Events After the Balance Sheet date**

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts, for Southampton City Council this date has been determined as 30 June 2014.

### **j) Financial instruments**

#### **Financial Liabilities**

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

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

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

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

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

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

#### **Financial Assets**

Financial assets are classified into two types:

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Loans and Receivables

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

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

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

### Soft Loans

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

Southampton City Council grants the following types of soft loans:

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

The Council also provides Private Sector Home Improvement Loans. These are granted for private sector home owners to make improvements to their properties. This is treated as capital expenditure and written off to revenue as Revenue Expenditure Funded from Capital under Statute. The loans are interest free and only become repayable when the property is sold. As these loans are treated as capital expenditure, no debtor is held in the Balance Sheet and as the period of the loan is unknown, they have not been accounted for under the Soft Loan provisions.

### Available for Sale Assets

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

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

- Instruments with quoted market prices – The market price.
- Other instruments with fixed and determinable payments – Discounted cash flow analysis.
- Equity shares with no quoted market prices – Independent appraisal of company valuations.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to 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 of amortisation).

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

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

### **k) Foreign Currency Transaction**

The Council does not undertake any material foreign currency transactions.

### **l) Government Grants and Other Contributions**

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or 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 CAA. Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

### **Community Infrastructure Levy**

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### m) Heritage Assets

#### Tangible and Intangible Assets (Described in this Summary of Significant Accounting policies as Heritage Assets)

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

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

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

- **Works of Art** – The art collection 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
  - Town Walls and various Vaults

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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.

### n) 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 2013/14 there were no relationships which would require the Council to produce Group Accounts.

### o) 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 Capital Receipts Reserve.

### p) Jointly Controlled Operations and Jointly Controlled Assets

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

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

### q) Leases

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

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

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

#### The Council as Lessee

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### The Council as Lessor

#### Finance Leases

The Council does not have any material finance leases.

#### 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.

### r) 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 2013/14 (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.

### s) 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:

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- 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

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 only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS.

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

### t) 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

### u) Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

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

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

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

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

#### Contingent Liabilities

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

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

#### Contingent Assets

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

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

### v) 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.

### w) 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.

### x) 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.

### y) 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 2013/14, 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.

### z) 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 NDR. The fund's key features relevant to accounting for Council Tax in the core financial statements are:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- In its capacity as a billing authority the Council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- Up to 2009/10 the Statement of Recommended Practice, (the SORP), required the Council Tax income included in the Comprehensive Income and Expenditure Statement to be that which, under regulation, was required to be transferred from the Collection Fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year 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:

- 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.

### aa) Accounting for the Costs of the Carbon Reduction Commitment Scheme

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

### ab) Trust Funds

The Council is sole trustee of several trust funds. As required by the SORP the funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. For details of the Trust Fund see Trust and Other Funds section.

### ac) 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 council to identify any accounting statements that have been issued but have yet to be adopted and that could have a material impact on the accounts. The following standards apply:

**IFRS 10 Consolidated Financial Statements** – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. This change is unlikely to require the Council to produce Consolidated Financial Statements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

**IFRS 11 Joint Arrangements** – This standard addresses the accounting for a ‘joint arrangement’, which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition, proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.

**IFRS 12 Disclosures of Involvement with Other Entities** – This is a consolidated disclosure standard requiring a range of disclosures about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated ‘structured entities’. The Council has some arrangements which may require additional disclosure.

**IFRS 13 Fair Value Measurement** – Proposed changes in respect of IFRS 13 Fair Value Measurement have been deferred to the 2015/16 Code.

**IAS 1 Presentation of the Financial Statements** – The changes clarify the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

**IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is also no impact as a result of changes in IAS 27 and IAS 28.

**IAS 32 Financial Instruments Presentation** – The Code refers to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

### 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 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 of Practice, 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 five types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and

## NOTES TO THE CORE FINANCIAL STATEMENTS

### o 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 2014	Infant	Junior	Primary	Secondary	Other	Total
Academies	5	4	6	4		19
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools	1	1	2			4
Community Schools	4	4	19	5	5	37
Foundation Trust	1		5	2	1	9
Free Schools					2	2
<b>Grand Total</b>	<b>11</b>	<b>9</b>	<b>35</b>	<b>12</b>	<b>8</b>	<b>75</b>

- 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 2014, the Council held £13.2M on its balance sheet in respect of Schools 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 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, (see Accounting Policies on Leases), and could have a significant effect on the Financial Statements.
- PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial

## NOTES TO THE CORE FINANCIAL STATEMENTS

entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.

- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Future Funding for Local Government** – There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.
- **Doubtful Debts Allowances** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.

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

The 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
<b>Property, Plant and Equipment</b>	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 £1.02M if the useful lives were reduced by one year.
<b>Arrears</b>	At 31 March 2014, the Council had a balance of sundry debtors of £10.1M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, is £0.8M, which represents 8% 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 £3.2M to set aside as an allowance.
<b>NDR Appeals Provision</b>	Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in 2013/14 and earlier years. Therefore, a provision has	An increase or reduction of the appeals provision estimate of 0.5%, would increase/(reduce) the year end NDR appeals provision by £2.1M and (£2.1M) respectively.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<p>been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2013/14.</p> <p>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)</p>	
<b>Pensions Liability</b>	<p>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.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within <b>Defined Benefit Pension Schemes Note 37 e)</b></p>
<b>Funded LGPS Benefits</b>		
<b>Discount rate assumption</b>		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	836.98	867.80
% change of present value of total obligation	-1.8%	1.8%
Projected service cost (£M's)	18.92	20.06
Approximate % change in projected service cost	-2.9%	3.0%
<b>Rate of general increase in salaries</b>		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	855.07	849.45
% change of present value of total obligation	0.3%	-0.3%
Projected service cost (£M's)	0.00	0.00
Approximate % change in projected service cost	0.0%	0.0%
<b>Rate of increase to pensions payment and deferred pensions assumption</b>		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	864.89	839.90
% change of present value of total obligation	1.5%	-1.4%
Projected service cost (£M's)	19.85	19.12
Approximate % change in projected service cost	1.9%	-1.8%

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	871.66	832.71
% change of present value of total obligation	2.3%	-2.3%
Projected service cost (£M's)	20.08	18.88
Approximate % change in projected service cost	3.1%	-3.1%
* 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 Adjustment

#### IAS 19 – Employee Benefits

This standard was amended in 2011 and the changes which relate to the creation of some new classes of components of defined benefit costs and the re-measurement of the net defined benefit liability requires prior year adjustments to the Comprehensive Income and Expenditure Statement and the Cash Flow Statement. As the expense is notional and reversed out via the Movement in Reserve Statement (MiRS) it has no overall impact on the Balance Sheet.

	2012/13		Restated	Income	Net
	Expenditure	Adjustments	£000's	£000's	£000's
	£000's	£000's	£000's	£000's	£000's
Adult Social Care	88,841	168	89,009	(24,584)	64,425
Central Services to the Public	27,992	9	28,001	(21,292)	6,709
Corporate and Democratic Core	4,088	13	4,101	(740)	3,361
Non Distributable Costs	5,632		5,632	(1,854)	3,778
Children's and Education Services	229,440	239	229,679	(164,020)	65,659
Cultural and Related Services	24,312	74	24,386	(6,638)	17,748
Environment and Regulatory Services	34,184	116	34,300	(14,617)	19,683
Planning and Development Services	7,511	38	7,549	(3,184)	4,365
Public Health					0
Highways and Transport Services	28,118	22	28,140	(16,666)	11,474
Local Authority Housing	50,913	81	50,994	(71,497)	(20,503)
Local Authority Housing-impairment loss on dwellings	10,206		10,206		10,206
Other Housing Services	127,789	10	127,799	(114,844)	12,955
<b>Exceptional Items</b>					
Impairment on General Fund	35,531		35,531		35,531
<b>Assets</b>					
Equal Pay Provision	129		129		129
<b>Cost of Services</b>	<b>674,686</b>	<b>770</b>	<b>675,456</b>	<b>(439,936)</b>	<b>235,520</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Comprehensive Income &amp; Expenditure Statement Extract</b>	<b>2012/13</b>		<b>Restated £000's</b>
	<b>Net £000's</b>	<b>Adjustments £000's</b>	
<b>Cost of Services</b>	<b>234,750</b>	<b>770</b>	<b>235,520</b>
<b>Other Operating Expenditure</b>	<b>44,810</b>		<b>44,810</b>
Income and Expenditure in relation to Investment Properties and changes in their fair value	(6,781)		(6,781)
Interest payable and similar charges	15,406		15,406
Interest and Investment Income	(2,246)		(2,246)
Pensions Interest Costs & Expected Return on Assets	10,850	6,940	17,790
<b>Financing, and Investment Income &amp; Expenditure</b>	<b>17,229</b>		<b>24,169</b>
<b>Taxation and Non-Specific Grant Income</b>	<b>(232,330)</b>		<b>(232,330)</b>
<b>Deficit / (Surplus) on the Provision of Services</b>	<b>64,459</b>		<b>72,169</b>
Surplus or deficit on revaluation of non current assets	(12,854)		(12,854)
Surplus or deficit on revaluation of available for sale financial assets	(154)		(154)
Actuarial (gains) / losses on pension assets / liabilities	25,900	(7,710)	18,190
<b>Other Comprehensive Income and Expenditure</b>	<b>12,892</b>		<b>5,182</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>77,351</b>		<b>77,351</b>

<b>Cash Flow Statement 2012/13 Extract</b>	<b>Accounts £000's</b>	<b>Adjustments £000's</b>	<b>Restated £000's</b>
Net surplus or (deficit) on the provision of services	(64,459)	(7,710)	(72,169)
Adjustments to surplus or deficit on the provision of services for noncash movements	23 (a) 131,985	7,710	139,695
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(49,418)		(49,418)
<b>Net Cash flows from operating activities</b>	<b>18,108</b>	<b>0</b>	<b>18,108</b>
<b>Note 23 (a)</b>			
Pension Liability	7,780	7,710	15,490



## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Movement in Reserves Statement Extract</u>							
	General Fund	HRA	Capital Receipts Reserve	Capital Grants and Contributions Unapplied	Total Useable Reserves	Useable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Net surplus or (deficit) on the provision of services	69,518	(5,059)			64,459		64,459
IAS19 Adjustments	6,898	812			7,710		7,710
<b>Restated</b>	<b>76,416</b>	<b>(4,247)</b>			<b>72,169</b>		<b>72,169</b>
Other Comprehensive Income and Expenditure						12,892	12,892
IAS19 Adjustments						(7,710)	(7,710)
<b>Restated</b>						<b>5,182</b>	<b>5,182</b>
Adjustments between accounting basis and funding basis 2012-13 Statements	(75,483)	7,120	(2,242)	892	(69,713)	69,713	
IAS19 Adjustments	(6,898)	(812)			(7,710)		
<b>Restated</b>	<b>(82,381)</b>	<b>6,308</b>	<b>(2,242)</b>	<b>892</b>	<b>(77,423)</b>	<b>77,423</b>	

## 6. Exceptional Items

### a) Revaluation of Property Plant and Equipment

The Council, as in prior years, discloses downward revaluations of General Fund and HRA properties as exceptional items.

### b) Equal Pay

Equal pay costs as in prior years continues to be treated as an exceptional item.

## 7. Events after the Reporting Period

The Financial Statements were authorised for issue by the Chief Financial Officer on 30 June 2014. 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 2014, 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

2013/14 Reconciliation	Adult Services	Children's Services	Communities	Economic Development & Leisure	Environment & Transport	Housing & Sustainability	Leader's Portfolio	Resources	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(10,455)	(9,792)	(1,048)	(2,314)	(22,328)	(1,007)	(2,014)	(26,623)	(75,581)	(7,177)	(82,758)	(71,148)	(153,906)
Government Grants & Contributions	(27,327)	(139,267)	(2,196)	(469)	(5,230)	(9)	(527)	(513)	(175,538)	0	(175,538)		(175,538)
<b>Total Income</b>	<b>(37,782)</b>	<b>(149,059)</b>	<b>(3,244)</b>	<b>(2,783)</b>	<b>(27,558)</b>	<b>(1,016)</b>	<b>(2,541)</b>	<b>(27,136)</b>	<b>(251,119)</b>	<b>(7,177)</b>	<b>(258,296)</b>	<b>(71,148)</b>	<b>(329,444)</b>
Employee Expenses	20,928	26,405	3,665	4,052	16,794	1,145	4,641	16,665	94,295	796	95,091	9,701	104,792
Other Operating Expenses	78,508	161,192	2,029	4,496	33,151	605	895	50,604	331,480	4,875	336,355	56,815	393,170
Internal Charges	254	267	99	171	4,158	1,109	106	972	7,136	1,493	8,629	5,643	14,272
<b>Total Operating Expenses</b>	<b>99,690</b>	<b>187,864</b>	<b>5,793</b>	<b>8,719</b>	<b>54,103</b>	<b>2,859</b>	<b>5,642</b>	<b>68,241</b>	<b>432,911</b>	<b>7,164</b>	<b>440,075</b>	<b>72,159</b>	<b>512,234</b>
<b>Net Controllable Cost</b>	<b>61,908</b>	<b>38,805</b>	<b>2,549</b>	<b>5,936</b>	<b>26,545</b>	<b>1,843</b>	<b>3,101</b>	<b>41,105</b>	<b>181,792</b>	<b>(13)</b>	<b>181,779</b>	<b>1,011</b>	<b>182,790</b>
Net Non Controllable Costs	6,295	21,891	1,003	7,534	11,088	667	(331)	(25,872)	22,275		22,275		22,275
<b>Total Portfolio Cost</b>	<b>68,203</b>	<b>60,696</b>	<b>3,552</b>	<b>13,470</b>	<b>37,633</b>	<b>2,510</b>	<b>2,770</b>	<b>15,233</b>	<b>204,067</b>	<b>(13)</b>	<b>204,054</b>	<b>1,011</b>	<b>205,065</b>

<b>Reconciliation to Cost of Services in Comprehensive Income and Expenditure Statement</b>		£000's
<b>Total Service Analysis Cost</b>		<b>205,065</b>
Add Services Not Included in Main Analysis		(818)
Add Amounts Reported to Management Outside Services		(133,723)
Add Amounts Not Reported to Management		(9,413)
Remove Amounts Reported to Management Not Included in Cost of Services		138,345
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>		<b>199,456</b>

**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's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(153,906)	(2,282)	(171)	(3,844)	6,636	(153,547)		(153,547)
Government Grants & Contributions	(175,538)	(113,508)	(98,739)		98,739	(289,046)	(109,997)	(399,043)
Interest and Investment Income			(654)		654	0	(3,684)	(3,684)
Income From Council Tax			(1,042)		1,042	0	(72,012)	(72,012)
NDR Redistribution			(43,953)		43,953	0	(43,954)	(43,954)
<b>Total Income</b>	<b>(329,444)</b>	<b>(115,770)</b>	<b>(144,558)</b>	<b>(3,844)</b>	<b>151,023</b>	<b>(442,593)</b>	<b>(229,647)</b>	<b>(672,240)</b>
Employee Expenses		104,792		56	731	105,579	18,210	123,789
Other Operating Expenses		393,170	114,952		(24,348)	(2,848)	480,926	480,926
Internal Charges		14,272			(805)	13,467		13,467
Depreciation, Amortisation and Impairment				(26,074)	41,128	26,074	41,128	41,128
Investment Properties						0	(1,269)	(1,269)
Interest Payable and Similar Charges				9,646		(9,646)	0	15,356
Other Miscellaneous Items				3,062		(2,113)	949	949
Draw from Balances				23,485		(23,485)	0	0
Precepts & Levies				661		(661)	0	661
Payments to Housing Capital Receipts Pool						0	940	940
Loss / (Gain) on Disposal of Fixed Assets						0	37,379	37,379
<b>Total Operating Expenses</b>		<b>512,235</b>	<b>114,952</b>	<b>10,836</b>	<b>16,706</b>	<b>(12,679)</b>	<b>642,050</b>	<b>71,277</b>
Net Non Controllable Costs			22,275		(22,275)		0	0
<b>Surplus / Deficit on the Provision of Services</b>		<b>205,066</b>	<b>(818)</b>	<b>(133,723)</b>	<b>(9,413)</b>	<b>138,345</b>	<b>199,457</b>	<b>(158,370)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

2012/13 Reconciliation	Adult Services	Children's Services	Communities	Environment & Transport	Housing & Leisure Services	Leader's Portfolio	Resources	Sub-Total Portfolios	Trading Areas	General Fund Portfolio Total	Housing Revenue Account	Service Analysis Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(10,355)	(12,163)	(560)	(19,333)	(5,797)	(2,302)	(23,786)	(74,296)	(7,152)	(81,448)	(68,337)	(149,785)
Government Grants & Contributions	(12,754)	(139,916)	(2,473)	(4,088)	(241)	(540)	(451)	(160,463)	0	(160,463)		(160,463)
<b>Total Income</b>	<b>(23,109)</b>	<b>(152,079)</b>	<b>(3,033)</b>	<b>(23,421)</b>	<b>(6,038)</b>	<b>(2,842)</b>	<b>(24,237)</b>	<b>(234,759)</b>	<b>(7,152)</b>	<b>(241,911)</b>	<b>(68,337)</b>	<b>(310,248)</b>
Employee Expenses	19,008	30,679	3,323	12,723	10,330	5,194	16,165	97,422	657	98,079	8,963	107,042
Other Operating Expenses	68,055	160,981	3,857	29,669	6,540	1,173	50,051	320,326	4,865	325,191	54,955	380,146
Internal Charges	286	402	194	2,916	2,738	222	913	7,671	1,491	9,162	3,751	12,913
<b>Total Operating Expenses</b>	<b>87,349</b>	<b>192,062</b>	<b>7,374</b>	<b>45,308</b>	<b>19,608</b>	<b>6,589</b>	<b>67,129</b>	<b>425,419</b>	<b>7,013</b>	<b>432,432</b>	<b>67,669</b>	<b>500,101</b>
<b>Net Controllable Cost</b>	<b>64,240</b>	<b>39,983</b>	<b>4,341</b>	<b>21,887</b>	<b>13,570</b>	<b>3,747</b>	<b>42,892</b>	<b>190,660</b>	<b>(139)</b>	<b>190,521</b>	<b>(668)</b>	<b>189,853</b>
Net Non Controllable Costs	6,078	25,299	1,111	10,929	7,335	294	(27,612)	23,434		23,434		23,434
<b>Total Portfolio Cost</b>	<b>70,318</b>	<b>65,282</b>	<b>5,452</b>	<b>32,816</b>	<b>20,905</b>	<b>4,041</b>	<b>15,280</b>	<b>214,094</b>	<b>(139)</b>	<b>213,955</b>	<b>(668)</b>	<b>213,287</b>

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

Total Service Analysis Cost 213,287

Add Services Not Included in Main Analysis (878)

Add Amounts Reported to Management Outside Services (129,872)

Add Amounts Not Reported to Management 18,562

Remove Amounts Reported to Management Not Included in Cost of Services 134,421

**Cost of Services in Comprehensive Income and Expenditure Statement 235,520**

## 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's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges & Other Service Income	(149,785)	(2,159)	(202)	(4,909)	7,062	(149,993)		(149,993)
Government Grants & Contributions	(160,463)	(129,480)	(26,604)		26,604	(289,943)	(51,260)	(341,203)
Interest and Investment Income			(806)		806	0	(2,246)	(2,246)
Income From Council Tax			(373)		373	0	(83,479)	(83,479)
NDR Redistribution			(97,591)		97,591	0	(97,591)	(97,591)
<b>Total Income</b>	<b>(310,248)</b>	<b>(131,639)</b>	<b>(125,576)</b>	<b>(4,909)</b>	<b>132,436</b>	<b>(439,936)</b>	<b>(234,576)</b>	<b>(674,512)</b>
Employee Expenses		107,042	129	(2,469)		104,702	17,790	122,492
Other Operating Expenses		380,146	130,761	(20,415)	(2,973)	487,519		487,519
Internal Charges		12,913		(659)		12,254		12,254
Depreciation, Amortisation and Impairment			(25,496)	70,448	25,496	70,448		70,448
Investment Properties						0	(6,781)	(6,781)
Interest Payable and Similar Charges			12,191		(12,191)	0	15,406	15,406
Other Miscellaneous Items			531		2	533		533
Draw from Balances			7,694		(7,694)	0		0
Precepts & Levies			655		(655)	0	655	655
Payments to Housing Capital Receipts Pool						0	827	827
Loss / (Gain) on Disposal of Fixed Assets						0	43,328	43,328
<b>Total Operating Expenses</b>		<b>500,101</b>	<b>130,761</b>	<b>(4,296)</b>	<b>46,905</b>	<b>1,985</b>	<b>675,456</b>	<b>71,225</b>
Net Non Controllable Costs		23,434		(23,434)		0		0
<b>Surplus / Deficit on the Provision of Services</b>		<b>213,287</b>	<b>(878)</b>	<b>(129,872)</b>	<b>18,562</b>	<b>134,421</b>	<b>235,520</b>	<b>(163,351)</b>

## 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>2013</u> £000's	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2013/14</u> £000's	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2013/14</u> £000's	<u>Balance</u> <u>31 March</u> <u>2014</u> £000's
<b><u>Earmarked Reserves</u></b>				
<b><u>General Fund</u></b>				
PFI Sinking Fund	4,414	(125)		4,289
SCC External Investments	34			34
Pay Reserve	311		1,301	1,612
On Street Parking	1,706		139	1,845
Transport Repairs Reserve			83	83
Treasury Risk Reserve	3,063			3,063
Transformation	2,056		223	2,279
General Fund Contributions to Capital	3,130	(1,273)		1,857
Pension Reserve			604	604
IT Development Fund			60	60
Public Health Revenue Reserve			355	355
	<b>14,714</b>	<b>(1,398)</b>	<b>2,765</b>	<b>16,081</b>
<b><u>HRA</u></b>				
Housing Act Advances	18	(18)		0
	<b>18</b>	<b>(18)</b>	<b>0</b>	<b>0</b>
<b><u>Schools</u></b>				
School Balances	11,656		850	12,506
	<b>26,388</b>	<b>(1,416)</b>	<b>3,615</b>	<b>28,587</b>

### 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's (29,923)	£000's (26,388)	£000's (3,289)	£000's (7,038)	£000's 0	£000's (9,140)	£000's (75,778)	£000's (689,557)	£000's (765,335)
<b>Balance at 1 April 2013</b>									
<b>Movement in Reserves during 2013/14</b>									
Surplus or (deficit) on Provision of Services	63,616		(22,529)		0	0	41,087		41,087
<b>Other Comprehensive Income and Expenditure</b>									
Surplus or deficit on revaluation of non current assets							0	(7,539)	(7,539)
Surplus or deficit on revaluation of available for sale financial assets								239	239
Impairment losses (chargeable to the Revaluation Reserve)							0	0	0
Actuarial (gains) / losses on pension assets / liabilities							0	(106,090)	(106,090)
<b>Total Comprehensive Income and Expenditure</b>	<b>63,616</b>	<b>0</b>	<b>(22,529)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>41,087</b>	<b>(113,390)</b>	<b>(72,303)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>									
Amortisation of Intangible Fixed Assets	(381)						(381)	381	0
Depreciation and Impairment of Fixed Assets	(53,974)		12,956				(41,018)	41,018	0
Movement on Market Value of Investment Assets Transferred to CAPITA	(3,413)		894				(2,519)	2,519	0
Capital Grants and Contributions Applied	32,721		139				32,860	(32,860)	0
Capital Grants and Contributions Unapplied	(400)		(18)			418	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(11,885)						(11,885)	11,885	0
Short-term Accumulating Compensated 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	339						339	(339)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	59						59	(59)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,163)		(4,547)				(39,710)	39,710	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,091		2,339				20,430	(20,430)	0
HRA Self Financing							0	0	0
Capitalisation Directive	0						0	0	0
Statutory Provision for the Financing of Capital Investment	6,089						6,089	(6,089)	0
Voluntary Provision for the Financing of Capital Investment	122		5,551			1,500	7,173	(7,173)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(940)			940			0	0	0
Capital expenditure charged in-year to the General Fund Balance	4,963		6,486				11,449	(11,449)	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	(7,801)						(7,801)	7,801	0
Transfers to/(from) Major Repairs Reserve					68		68	(68)	0
HRA Depreciation					(18,261)		(18,261)	18,261	0
Financing of HRA Assets					18,193		18,193	(18,193)	0
Removal of HRA Effective Interest Rate Calculation			0				0	0	0
Amortisation of Item 8 Discount			(394)				(394)	394	0
Net (loss) / gain on sale of Fxed Assets	(37,245)						(37,245)	0	(37,245)
Capital Receipts not matched by Disposal of Capital Receipts in Year	(134)		134				0	0	0
Non-current Asset Disposals					(17,528)		(17,528)	0	(17,528)
Capital Receipts Financing of New Capital Expenditure				11,485			11,485	(11,485)	0
Historic Cost Depreciation Adjustment							0	0	0
Other - inc Repayment of Temporary Borrowing				5,750			5,750	(5,750)	0
	<b>(89,299)</b>	<b>0</b>	<b>23,540</b>	<b>647</b>	<b>0</b>	<b>1,918</b>	<b>(63,194)</b>	<b>63,194</b>	<b>0</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(25,683)</b>	<b>0</b>	<b>1,011</b>	<b>647</b>	<b>0</b>	<b>1,918</b>	<b>(22,107)</b>	<b>(50,196)</b>	<b>(72,303)</b>
<b>Transfers to/(from) Earmarked Reserves (Note 10)</b>	<b>2,197</b>	<b>(2,199)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>2</b>	<b>0</b>
<b>(Increase)/Decrease movement in Year</b>	<b>(23,486)</b>	<b>(2,199)</b>	<b>1,011</b>	<b>647</b>	<b>0</b>	<b>1,918</b>	<b>(22,109)</b>	<b>(50,194)</b>	<b>(72,303)</b>
<b>Balance at 31 March 2014</b>	<b>(53,409)</b>	<b>(28,587)</b>	<b>(2,278)</b>	<b>(6,391)</b>	<b>0</b>	<b>(7,222)</b>	<b>(97,887)</b>	<b>(739,751)</b>	<b>(837,638)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 April 2012	(23,530)	(28,987)	(2,621)	(4,796)	0	(10,061)	(69,995)	(772,135)	(842,130)
Prior Year Restatement		(556)				29	(527)	(29)	(556)
Balance at 1 April 2012 - Restated	(23,530)	(29,543)	(2,621)	(4,796)	0	(10,032)	(70,522)	(772,164)	(842,686)
<b>Movement in Reserves during 2012/13</b>									
Surplus or (deficit) on Provision of Services	76,416		(4,247)		0	0	72,169		72,169
<b>Other Comprehensive Income and Expenditure</b>									
Surplus or deficit on revaluation of non current assets							0	(12,854)	(12,854)
Surplus or deficit on revaluation of available for sale financial assets								(154)	(154)
Actuarial (gains) / losses on pension assets / liabilities							0	18,190	18,190
<b>Total Comprehensive Income and Expenditure</b>	76,416	0	(4,247)	0	0	0	72,169	5,182	77,351
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>									
Amortisation of Intangible Fixed Assets	(761)						(761)	761	0
Depreciation and Impairment of Fixed Assets	(59,411)		(10,275)				(69,686)	69,686	0
Movement on Market Value of Investment Properties	2,623		69				2,692	(2,692)	0
Assets Transferred to CAPITA	(330)						(330)	330	0
Capital Grants and Contributions Applied	35,218		992				36,210	(36,210)	0
Capital Grants and Contributions Unapplied	(1,252)		360			892	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(13,367)						(13,367)	13,367	0
Short-term Accumulating Compensated Absences Account	169						169	(169)	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	60						60	(60)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(31,882)		(3,748)				(35,630)	35,630	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,022		2,118				20,140	(20,140)	0
Provision for the Financing of Capital Investment	9,962		10,434				20,396	(20,396)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(827)			827			0	0	0
Capital expenditure charged in-year to the General Fund Balance	2,823		6,288				9,111	(9,111)	0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	(100)						(100)	100	0
Transfers to/(from) Major Repairs Reserve					68		68	(68)	0
HRA Depreciation					(16,206)		(16,206)	16,206	0
Financing of HRA Assets					16,138		16,138	(16,138)	0
Amortisation of Item 8 Discount			(13)				(13)	13	0
Net (loss) / gain on sale of Fxed Assets	(43,245)						(43,245)	0	(43,245)
Capital Receipts not matched by Disposal of Asse	(83)		83				0	0	0
Capital Receipts in Year				(17,022)			(17,022)	0	(17,022)
Non-current Asset Disposals							0	60,267	60,267
Capital Receipts Financing of New Capital Expenditure				11,393			11,393	(11,393)	0
Other - inc Repayment of Temporary Borrowing				2,560			2,560	(2,560)	0
	(82,381)	0	6,308	(2,242)	0	892	(77,423)	77,423	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(5,965)	0	2,061	(2,242)	0	892	(5,254)	82,605	77,351
Transfers to/(from) Earmarked Reserves (Note 10)	(428)	3,155	(2,729)	0	0	0	(2)	2	0
(Increase)/Decrease movement in Year	(6,393)	3,155	(668)	(2,242)	0	892	(5,256)	82,607	77,351
<b>Balance at 31 March 2013</b>	(29,923)	(26,388)	(3,289)	(7,038)	0	(9,140)	(75,778)	(689,557)	(765,335)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Financing and Investment Income and Expenditure

<b>Interest and Investment Income</b>		
<u>2012/13</u> £000's		<u>2013/14</u> £000's
800	Temporary Investments	645
35	HRA Cash Balances	34
1,411	Other	10
<u>2,246</u>		<u>689</u>

<b>Interest Payable and Similar Charges</b>		
<u>2012/13</u> £000's		<u>2013/14</u> £000's
9,679	Interest on External Loans	8,982
566	Payments to HCC in respect of Transferred Debt	575
210	Interest on Funds held	236
4,905	PFI Schemes	5,555
46	Finance Leases	8
<u>15,406</u>		<u>15,356</u>

### 12. Property Plant and Equipment

Fixed assets are shown at a current valuation of £1,187.8M, a decrease of £25.9M. The basis of valuation is explained in more detail in **Note 1s (Accounting Policies)**. The values are shown as at 31 March 2014.

#### 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 Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

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

#### c) Disposals

The £37.4M (2012/13 £43.3M) loss on disposal of non-current assets, shown within the Comprehensive Income and Expenditure Statement, includes transfers of ownership from the Council to Academy Schools

## NOTES TO THE CORE FINANCIAL STATEMENTS

and Foundation Trust Schools of approximately £37.1M (2012/13 £47.0M). With the move for schools to convert to academies this is likely to continue.

<b>Movement in Property, Plant &amp; Equipment (PP&amp;E) 2013/14</b>									
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>	<b>PFI Assets Included in PP&amp;E</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Cost or Valuation</b>									
At 1 April 2013	486,113	698,907	33,425	152,516	1,058	9,149	5,323	<b>1,386,491</b>	83,910
Additions	30,524	10,969	11,282	14,562			4,088	<b>71,425</b>	7,409
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		7,557			(18)			<b>7,539</b>	325
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,659)	(20,259)			(55)		(958)	<b>(23,931)</b>	806
Derecognition-Disposals	(5,929)	(42,203)						<b>(48,132)</b>	
Derecognitions- Fully Depreciated			(3,444)					<b>(3,444)</b>	
Other Reclassifications	457	(16,233)			82		1,401	<b>(14,293)</b>	
<b>At 31 March 2014</b>	<b>508,506</b>	<b>638,738</b>	<b>41,263</b>	<b>167,078</b>	<b>1,067</b>	<b>9,149</b>	<b>9,854</b>	<b>1,375,655</b>	<b>92,450</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2013	(16,138)	(123,774)	(10,595)	(20,874)	(41)	(1,388)		<b>(172,810)</b>	(8,393)
Reclassifications		2,164			(8)			<b>2,156</b>	
Depreciation Charge	(18,193)	(16,405)	(3,007)	(3,357)		(205)		<b>(41,167)</b>	(2,355)
Depreciation written out to the Revaluation Reserve								<b>0</b>	
Depreciation written out to the Surplus/Deficit on the Provision of Services	16,138							<b>16,138</b>	
Derecognition-Disposals		4,391	3,444					<b>7,835</b>	
<b>At 31 March 2014</b>	<b>(18,193)</b>	<b>(133,624)</b>	<b>(10,158)</b>	<b>(24,231)</b>	<b>(49)</b>	<b>(1,593)</b>	<b>0</b>	<b>(187,848)</b>	<b>(10,748)</b>
<b>Net Book Value</b>									
<b>At 31 March 2014</b>	<b>490,313</b>	<b>505,114</b>	<b>31,105</b>	<b>142,847</b>	<b>1,018</b>	<b>7,556</b>	<b>9,854</b>	<b>1,187,807</b>	<b>81,701</b>
<b>At 31 March 2013</b>	<b>469,975</b>	<b>575,133</b>	<b>22,830</b>	<b>131,642</b>	<b>1,017</b>	<b>7,761</b>	<b>5,323</b>	<b>1,213,681</b>	<b>75,517</b>

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Carried at Historic Cost</b>		193	31,105	142,847	1,018		9,854	<b>185,017</b>
<b>Valued at Fair Value in:</b>								
2013/14	490,313	89,317						<b>579,630</b>
2012/13		42,035						<b>42,035</b>
2010/11		331,862				215		<b>332,077</b>
2009/10		12,666						<b>12,666</b>
2008/09		29,041				7,341		<b>36,382</b>
<b>Net Book Value as at 31 March 2014</b>	<b>490,313</b>	<b>505,114</b>	<b>31,105</b>	<b>142,847</b>	<b>1,018</b>	<b>7,556</b>	<b>9,854</b>	<b>1,187,807</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PP&E) 2012/13									
	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's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Cost or Valuation</b>									
At 1 April 2012	491,666	713,079	28,059	143,144	2,029	9,429	38,698	<b>1,426,104</b>	78,467
Additions	23,991	18,960	9,431	9,372			8,143	<b>69,897</b>	5,443
Donations								<b>0</b>	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		11,347				(2)		<b>11,345</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(23,643)	(34,287)				(95)	(163)	<b>(58,188)</b>	
Derecognition-Disposals	(5,066)	(51,392)			(10)	(428)		<b>(56,896)</b>	
Derecognitions- Fully Depreciated			(4,078)					<b>(4,078)</b>	
Other Reclassifications	(835)	41,200	13		(961)	245	(41,355)	<b>(1,693)</b>	
<b>At 31 March 2013</b>	<b>486,113</b>	<b>698,907</b>	<b>33,425</b>	<b>152,516</b>	<b>1,058</b>	<b>9,149</b>	<b>5,323</b>	<b>1,386,491</b>	<b>83,910</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2012	(13,096)	(108,939)	(11,574)	(17,681)	(41)	(1,167)		<b>(152,498)</b>	(6,035)
Depreciation Charge	(16,138)	(17,394)	(3,100)	(3,193)		(221)		<b>(40,046)</b>	(2,358)
Impairment losses/reversals recognised in the Surplus/Deficit on the Provision of Services	13,096							<b>13,096</b>	
Derecognition-Disposals		2,559	4,078					<b>6,637</b>	
<b>At 31 March 2013</b>	<b>(16,138)</b>	<b>(123,774)</b>	<b>(10,595)</b>	<b>(20,874)</b>	<b>(41)</b>	<b>(1,388)</b>	<b>0</b>	<b>(172,810)</b>	<b>(8,393)</b>
<b>Net Book Value</b>									
<b>At 31 March 2013</b>	<b>469,975</b>	<b>575,133</b>	<b>22,830</b>	<b>131,642</b>	<b>1,017</b>	<b>7,761</b>	<b>5,323</b>	<b>1,213,681</b>	<b>75,517</b>
<b>At 31 March 2012</b>	<b>478,570</b>	<b>604,140</b>	<b>16,485</b>	<b>125,463</b>	<b>1,988</b>	<b>8,262</b>	<b>38,698</b>	<b>1,273,606</b>	<b>72,432</b>

### Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgeted to cost £32.1M. Similar commitments at 31 March 2013 were £57.7M. The major commitments are:

	£000's
HRA - modern facilities	14,002
HRA - safe, wind & weather tight	6,254
HRA - estate regeneration	1,940
HRA - warm & energy efficient	1,426
Local Sustainable Transport	1,362
HRA - well maintained communal facilities	1,234
Oaklands Swimming Pool	1,224
Platform Road	1,139
Sea City Phase 2	566
New Arts Centre	490
Primary Review Phase 2	360
Other Various	2,090
<b>Total</b>	<b>32,087</b>

### 13. Heritage Assets

As noted in set out in our Accounting Policies, **Note 1m (Accounting Policies)**, the Council's Heritage Assets are broadly held in the Council's Museums. The Council has four collections of Heritage Assets which are held in support of the primary objective of the Council's Museums, i.e. increasing the knowledge and understanding and appreciation of the Council's history and local area. Heritage Assets are recognised

## NOTES TO THE CORE FINANCIAL STATEMENTS

and measured (including treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

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

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

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

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

	Works of Art £000's	Historic Buildings and Ancient Monuments £000's	Total Assets £000's
<b>Cost or Valuation</b>			
1 April 2012	190,000	6,988	196,988
Additions		112	112
Disposals			0
Revaluations			0
Impairment Losses/(reversals) recognised in the Revaluation Reserve			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
Cumulative Depreciation		(384)	(384)
<b>31 March 2013</b>	<b>190,000</b>	<b>6,716</b>	<b>196,716</b>
<b>Cost or Valuation</b>			
1 April 2013	190,000	7,100	197,100
Additions		8	8
Disposals			0
Revaluations			0
Impairment Losses/(reversals) recognised in the Revaluation Reserve			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
Cumulative Depreciation		(736)	(736)
<b>31 March 2014</b>	<b>190,000</b>	<b>6,372</b>	<b>196,372</b>

#### a) 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.

#### b) 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### c) Archaeology

The archaeology collections are also designated. The main component of these collections is 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.

### d) 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 spread sheets, the rest are still only on paper records.

### e) Additions and Disposals of Heritage Assets

There were £8,000 (£112,000 12/13) of Heritage Asset additions and no disposals in either current or previous year.

## 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:

<u>2012/13</u> £000's		<u>2013/14</u> £000's
(7,062)	Rental Income	(6,636)
<u>2,973</u>	Operating Expenditure	<u>2,848</u>
<b>(4,089)</b>	<b>Net (Gains) / Losses</b>	<b>(3,788)</b>
(2,692)	Net (gains)/losses from fair value adjustments	2,519
<u><b>(6,781)</b></u>	<b>Net (Income) / Expenditure</b>	<u><b>(1,269)</b></u>

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

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

	<u>2012/13</u> £000's	<u>2013/14</u> £000's
<b>Balance at start of year</b>	<b>123,812</b>	<b>120,580</b>
Additions:		
Purchases		63
Subsequent Expenditure	24	
Disposals	(5,930)	(5,462)
Net gains / (losses) from fair value adjustments	2,692	(2,519)
Transfers		
(to) / from Property, Plant and Equipment	(18)	(310)
<b>Balance at End of Year</b>	<u><b>120,580</b></u>	<u><b>112,352</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 15. Assets Held for Sale

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

	<u>2012/13</u> £000's	<u>2013/14</u> £000's
<b>Balance at Start of Year</b>	<b>4,931</b>	<b>7,716</b>
Assets newly classified as held for sale from:		
Property, Plant and Equipment	1,711	12,449
Intangible Assets		
Additions	279	
Revaluation Gains	1,735	
Revaluation Losses	(225)	
Impairment losses to CIES	(715)	(9,968)
Assets Sold		(5,570)
<b>Balance at End of Year</b>	<b>7,716</b>	<b>4,627</b>

### 16. 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 Co-operative bank,
- Finance leases on land and buildings,
- Private Finance Initiative contracts detailed in **Note 34 (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,

## NOTES TO THE CORE FINANCIAL STATEMENTS

- 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 issued by banks and building societies,
- Treasury bills and gilts issued by the UK Government, and
- Bonds issued by multilateral development banks.

Balances in money market funds and call accounts at 31 March 2014 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:

	<u>Long Term</u>		<u>Short Term</u>		<u>Total</u>	
	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
<u>Financial Liabilities</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Loans at amortised cost:						
- Principal sum borrowed	254,815	243,310	55,178	30,881	309,993	274,191
- Accrued interest		0	1,427	1,314	1,427	1,314
- EIR adjustments		0	87	0	87	0
<b>Total Borrowing</b>	<b>254,815</b>	<b>243,310</b>	<b>56,692</b>	<b>32,195</b>	<b>311,507</b>	<b>275,505</b>
Loans at amortised cost:						
- Bank Overdraft			5,361	6,261	5,361	6,261
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>5,361</b>	<b>6,261</b>	<b>5,361</b>	<b>6,261</b>
Liabilities at amortised cost:						
- Finance leases	147	20			147	20
- PFI arrangements	54,300	59,990			54,300	59,990
<b>Total Long-term Creditors</b>	<b>54,447</b>	<b>60,010</b>	<b>0</b>	<b>0</b>	<b>54,447</b>	<b>60,010</b>
Liabilities at amortised cost:						
- Deferred Liabilities	16,297	15,645	679	652	16,976	16,297
<b>Total Other Long-term Liabilities</b>	<b>16,297</b>	<b>15,645</b>	<b>679</b>	<b>652</b>	<b>16,976</b>	<b>16,297</b>
Liabilities at amortised cost:						
- Finance leases			699	129	699	129
- PFI arrangements			1,764	1,719	1,764	1,719
- Trade payables			9,262	10,143	9,262	10,143
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>11,725</b>	<b>11,991</b>	<b>11,725</b>	<b>11,991</b>
<b>Total Financial Liabilities</b>	<b>325,559</b>	<b>318,965</b>	<b>74,457</b>	<b>51,099</b>	<b>400,016</b>	<b>370,064</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Assets	Long Term		Short Term		Total	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000's	£000's	£000's	£000's	£000's	£000's
Loans and receivables:						
- Principal at amortised cost			14,000	18,000	14,000	18,000
- Accrued interest			46	87	46	87
Available for sale investments:					0	0
- Principal at amortised cost	3,036	3,036	1,000	0	4,036	3,036
- Accrued interest			140	140	140	140
- Fair value adjustments	651	411	2	2	653	413
At fair value through profit & loss:					0	0
- Investments held for trading					0	0
<b>Total Investments</b>	<b>3,687</b>	<b>3,447</b>	<b>15,188</b>	<b>18,229</b>	<b>18,875</b>	<b>21,676</b>
Loans and receivables:						
- Cash			137	126	137	126
- Cash equivalent at amortised cost			50,748	48,051	50,748	48,051
- Accrued interest			32	31	32	31
Available for sale investments:					0	0
- Cash equivalent at amortised cost					0	0
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>50,917</b>	<b>48,208</b>	<b>50,917</b>	<b>48,208</b>
Loans and receivables:						
- Trade receivables			10,285	9,101	10,285	9,101
- Loans made for service purposes	26	9			26	9
- Accrued interest					0	0
<b>Included in Debtors</b>	<b>26</b>	<b>9</b>	<b>10,285</b>	<b>9,101</b>	<b>10,311</b>	<b>9,110</b>
<b>Total Financial Assets</b>	<b>3,713</b>	<b>3,456</b>	<b>76,390</b>	<b>75,538</b>	<b>80,103</b>	<b>78,994</b>

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 2014/15.

### Soft Loans

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

### c) 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:

	2013/14			2012/13	
	Financial Liabilities	Financial Assets		Total £000's	Total £000's
	Amortised cost £000's	Loans and Receivables £000's	Available-for-sale Assets £000's		
Interest expense	(15,221)			(15,221)	(15,270)
Losses on derecognition	(135)			(135)	(136)
Impairment Losses					
<b>Interest Payable and Similar Charges</b>	<b>(15,356)</b>	<b>0</b>	<b>0</b>	<b>(15,356)</b>	<b>(15,406)</b>
Interest income		3,214		3,214	2,157
Gains on derecognition	470			470	89
<b>Interest and Investment Income</b>	<b>470</b>	<b>3,214</b>	<b>0</b>	<b>3,684</b>	<b>2,246</b>
Gains on revaluation			0	0	212
Losses on revaluation			(238)	(238)	(58)
Amounts recycled to the I&E Account after impairment				0	0
<b>Deficit Arising on Revaluation of Financial Assets</b>			<b>(238)</b>	<b>(238)</b>	<b>154</b>
<b>Net Gain / (Loss) for the Year</b>	<b>(14,886)</b>	<b>3,214</b>	<b>(238)</b>	<b>(11,910)</b>	<b>(13,006)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Financial Instruments – Fair Values

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 2014, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans with an identical remaining term to maturity arranged on 31 March.
- The fair values of long-term “Lender’s Option Borrower’s Option” (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate on 31st March plus a margin for local authority credit risk and adding 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.
- Other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March.
- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

In the case of short term instruments the Council deems the carrying amount to be a reasonable approximation of the fair value.

<u>Balance Sheet</u>		<u>Fair Value</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>31 March</u>	<u>31 March</u>	<u>31 March</u>	<u>31 March</u>
<u>2013</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>
<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
<b>Financial Liabilities</b>							
316,868	356,805	Loans Outstanding	281,766	277,001			
16,976	16,976	Deferred Liabilities	16,297	16,297			
56,910	114,468	PFI/Finance Lease Liabilities *	61,858	105,869			
9,262	9,262	Trade Payables (Creditors)	10,143	10,143			
<b>400,016</b>	<b>497,511</b>	<b>Total Financial Liabilities</b>	<b>370,064</b>	<b>409,310</b>			
<b>Financial Assets</b>							
3,687	3,689	Long Term Investments	3,447	3,449			
66,105	66,105	Short Term investments	66,437	66,437			
10,311	6,870	Trade Receivables (Debtors)	9,110	5,629			
<b>80,103</b>	<b>76,664</b>	<b>Total Financial Assets</b>	<b>78,994</b>	<b>75,515</b>			

\* PFI/ Finance Liabilities Fair value restated for 2012/13

### e) 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

- **Credit Risk** – The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.
- **Liquidity Risk** – The possibility that 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.

### f) 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 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 £15M can be invested with a single counterparty subject to this being no more than 15% of total investments and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit of £50M was 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 in banks and building societies of £69M 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 2014 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement for 2013/14, approved by Full Council on 13 February 2013. The 2013/14 Treasury Strategy can be seen as Item 100 on the Council Meeting Agenda found via the following web link:

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4>

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2014, and confirms that all investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

<b>Outstanding Investments as at 31 March 2014</b>									
Counterparty	<u>Credit Rating</u> <u>Criteria Met When</u> <u>Investment</u> <u>Placed</u>	<u>Credit Rating</u> <u>Criteria Met</u> <u>on 31 March</u> <u>2014</u>	<u>Under 1</u> <u>Month</u>	<u>1-3</u> <u>Months</u>	<u>3-6</u> <u>Months</u>	<u>6-9</u> <u>Months</u>	<u>9-12</u> <u>Months</u>	<u>Over 12</u> <u>Months</u>	<u>Total</u>
	YES/NO	YES/NO	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>UK</b>									
Bank Deposits	YES	YES	30,929	7,000	2,000				39,929
Building Societies Government & Local Authority Deposits	YES	YES	1,000		4,000	3,000			8,000
Money Market Funds	YES	YES	18,122						0
Bonds								3,036	18,122
<b>Total Investments</b>			<b>50,051</b>	<b>7,000</b>	<b>6,000</b>	<b>3,000</b>	<b>0</b>	<b>3,036</b>	<b>69,087</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

The above analysis shows that all deposits outstanding as at 31 March 2014 met the Council's credit rating criteria.

### Trade Receivables

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

<b>Trade Debtors and Impairment Provision</b>			
	<b>Outstanding 31 March 2013</b>	<b>Outstanding 31 March 2014</b>	
	<b>£000's</b>	<b>£000's</b>	
<b>General Fund</b>			
Trade Debtors	6,355	5,003	
Trade Debtors Impairment Provision	(1,799)	(1,553)	
<b>HRA</b>			
Trade Debtors	3,930	4,098	
Trade Debtors Impairment Provision	(1,642)	(1,928)	

### g) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other Local Authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

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

The maturity analysis of the nominal value of the Council's debt at 31 March 2014 was as follows:

<b>Outstanding 31 March 2013</b>	<b>% of Total Debt Portfolio</b>	<b>Total Borrowing</b>	<b>Outstanding 31 March 2014</b>	<b>% of Total Debt Portfolio</b>
<b>£000's</b>	<b>%</b>	<b>Source of Loan</b>	<b>£000's</b>	<b>%</b>
267,320	86	Public Works Loan Board	254,815	93
42,673	14	Other Financial Institutions	19,376	7
<b>309,993</b>	<b>100</b>		<b>274,191</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>				
55,178	18	Less than 1 Year *	30,881	11
11,505	4	Between 1 and 2 years	11,505	4
34,515	11	Between 2 and 5 years	34,515	13
69,948	23	Between 5 and 10 years	58,443	21
0	0	Between 10 and 15 years		0
0	0	Between 20 and 25 years		0
5,000	2	Between 25 and 30 years	10,000	4
10,000	3	Between 30 and 35 years	5,000	2
42,000	13	Between 35 and 40 years	42,000	15
50,600	16	Between 40 and 45 years	54,850	20
31,247	10	Over 45 years	26,997	10
<b>309,993</b>	<b>100</b>		<b>274,191</b>	<b>100</b>

\*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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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:

<b>Loans and Other Long term Liabilities Outstanding (Nominal Value)</b>		
	<b>Outstanding 31 March 2013</b>	<b>Outstanding 31 March 2014</b>
<b>Source</b>	<b>£000's</b>	<b>£000's</b>
Public Works Loan Board	267,320	254,815
Market Debt	9,000	9,000
Temporary Borrowing	33,673	10,376
Deferred Liabilities	16,976	16,297
PFI / Finance Lease Liabilities	56,910	61,857
<b>Total</b>	<b>383,879</b>	<b>352,345</b>

### h) Market Risk

#### Interest Rate Risk

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

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

Investments 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 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, within the Comprehensive Income and Expenditure Statement.

The Treasury Management Strategy aims to mitigate these risks by setting an upper limit on its exposure to fixed and variable interest rates. At 31 March 2014 £35M (13%) of the debt portfolio was held in variable rate instruments.

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

	<b>£000's</b>
Increase in interest payable on variable rate borrowings	133
Increase in interest payable on variable rate investments	
Increase in government grant receivable for financing costs	
<b>Impact on the Provision of Services (Surplus / Deficit)</b>	<b>133</b>
Share of overall impact debited/credited to HRA	106
Decrease in fair value of fixed rate investment assets	
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>0</b>
Decrease in fair value of fixed rate borrowings/liabilities (no impact on Comprehensive Income and Expenditure)	(24,836)

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### 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 did not invest in equity shares as at 31 March 2014 and therefore was not subject to any price risk, (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

### Foreign Exchange Risk

The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

## 17. Debtors

### a) Long Term Debtors

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

- **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 (£423,600). 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 (£77,100). Therefore the net reduction in Long term debtors is £346,500. More information relating to the contract with Capita is included in **Note 1y (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 2014 is approximately £11.0M, the 2014/15 write down of £3.2M being shown within short term debtors.
- **Other** – The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

Some loans are interest free where the loan has been made to 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.

<b>31 March 2013 £000's</b>		<b>31 March 2014 £000's</b>
	<b>Mortgages</b>	
26	Sale of Council Houses	9
	<b>Other</b>	
1,497	IT Assets transferred to Capita	1,150
11,024	Capita Prepayment	7,755
105	Other	78
<b>12,652</b>		<b>8,992</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 2014.

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

<u>31 March</u> <u>2013</u>	<u>Debtors</u>	<u>31 March</u> <u>2014</u>
£000's		£000's
	<b>Government</b>	
1,913	Department of Communities & Local Government	1,159
	Department for Business, Innovation & Skills	2,047
3,775	Department of Work and Pensions	250
2,806	HM Revenue & Customs (VAT)	5,301
	NHS England (NHS Commissioning Board)	3,971
884	Heritage Lottery Fund	460
1,324	Other Departments *	951
10,702		14,139
	<b>Taxpayers</b>	
7,090	Council Tax	8,556
(5,645)	Council Tax Impairment	(6,081)
	National Non-Domestic Rates	1,827
	National Non-Domestic Rates Impairment	(611)
1,445		3,691
	<b>Public Sector Organisations</b>	
2,251	Hampshire County Council	1,693
3,939	Southampton City Primary Care Trust	
700	Other Local Authorities and Public Bodies	1,254
6,890		2,947
	<b>General Fund - Other Debtors</b>	
6,290	Housing Benefit	6,357
(4,274)	Housing Benefit Impairment Provision	(4,369)
5,066	CAPITA	3,738
6,355	Trade Debtors	5,003
(1,799)	Trade Debtors Impairment Provision	(1,553)
8,973	Sundry Debtors	10,149
(1,197)	Sundry Debtors Impairment Provision	(790)
19,414		18,535
	<b>Housing Revenue Account - Other Debtors</b>	
3,930	Trade Debtors	4,098
(1,642)	Trade Debtors - Impairment Provision	(1,928)
2,375	Sundry Debtors	1,856
(604)	Sundry Debtors - Impairment Provision	(570)
4,059		3,456
<b>42,510</b>	<b>Total Debtors</b>	<b>42,768</b>

\* Comparatives restated for consistency

## 18. 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 £6.2M, the Council's actual bank account balance at the Bank was £0.18M overdrawn at 31 March 2014. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn by £6.2M because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can

## NOTES TO THE CORE FINANCIAL STATEMENTS

withdraw from Money Market Funds and Call Accounts, (as detailed in the above table), 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>2013</u> £000's		<u>31 March</u> <u>2014</u> £000's
(5,361)	Bank Accounts	(6,261)
<u>(5,361)</u>		<u>(6,261)</u>
33,788	Money Market Funds	18,129
16,992	Call Accounts	29,953
137	Petty Cash	126
<u>50,917</u>		<u>48,208</u>
<u><u>45,556</u></u>		<u><u>41,947</u></u>

### 19. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2014.

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 2014.

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

<u>31 March</u> <u>2013</u> £ 000's	<u>Creditors</u>	<u>31 March</u> <u>2014</u> £ 000's
	<b>Government</b>	
3,083	HM Revenue & Customs (PAYE & National Insurance)	2,611
840	Department for Work & Pensions (DW P)	1,452
7,148	Teachers' Pensions	731
683	Public Works Loans Board (PWL B)	
<u>11,754</u>	Other Departments *	<u>860</u>
		<u>5,654</u>
580	<b>Taxpayers</b>	
<u>580</u>	Council Tax / Business Rates (prepayments)	<u>3,270</u>
		<u>3,270</u>
1,903	<b>Public Sector Organisations</b>	
3,412	Hampshire County Council	1,610
1,124	Hampshire County Council (Local Government Pensions)	2,607
<u>6,439</u>	Other Local Authorities and Public Bodies *	<u>1,377</u>
		<u>5,594</u>
330	<b>General Fund - Other Creditors</b>	
699	Building Control Competition A/C	321
1,764	Finance Creditor (Leasing))	129
2,382	Finance Creditor (PFI and Hampshire Waste Contract)	1,719
1,910	Accumulated Absences Account	2,043
27,332	CAPITA	1,076
<u>7,956</u>	Sundry Creditors	31,905
<u>42,373</u>	Trade Creditors	<u>8,843</u>
		<u>46,036</u>
908	<b>Housing Revenue Account - Other Creditors</b>	
1,306	Sundry Creditors	2,547
<u>2,214</u>	Trade Creditors	1,300
		<u>3,847</u>
<u><u>63,360</u></u>	<b>Total Creditors</b>	<u><u>64,401</u></u>

\* Comparatives restated for consistency

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20. 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:

	<u>Balance at 31</u> <u>March 2013</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 2014</u>
	£000's	£000's	£000's	£000's
<u>General Fund</u>				
NDR Appeals Provision		10,489	(3,068)	7,421
General Insurance Funds	6,306	917	(1,002)	6,221
Itchen Bridge Repairs	460		(450)	10
Civic Centre R&M Sinking Fund		421		421
NRC Refund Provision		779		779
Other Provisions	281	51		332
	<u>7,047</u>	<u>12,657</u>	<u>(4,520)</u>	<u>15,184</u>
HRA	21	23	(14)	30
<b>Total</b>	<u>7,068</u>	<u>12,680</u>	<u>(4,534)</u>	<u>15,214</u>

The Provisions are estimated to be utilised as follows:

	<u>Balance at 31</u> <u>March 2014</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	7,421	5,000	2,421	0
General Insurance Funds	6,221	1,331	4,891	0
Itchen Bridge Repairs	10	10	0	0
Civic Centre R&M Sinking Fund	421	224	197	0
NRC Refund Provision	779	529	250	0
Other Provisions	332	0	281	50
	<u>15,184</u>	<u>7,094</u>	<u>8,040</u>	<u>50</u>
HRA	30	30	0	0
<b>Total</b>	<u>15,214</u>	<u>7,124</u>	<u>8,040</u>	<u>50</u>

#### a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in 2013/14 and earlier years. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to the 31 March 2013/14.

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 £125,000 and £40,000 respectively are met from the internal insurance funds. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured etc), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2014 amounted to £2.5M with a closing fund balance of £6.2M. With regard to the outstanding provision figure, the Council's insurers allocate a claim provision figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The provision figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

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

### c) Non Residential Charging Provision

A recent review of the Council's Non Residential Care Charging policy highlighted that the previous policy did not fully adhere to the national guidelines as set out by the Department of Health. It is probable that the Council has overcharged clients in respect of their contributions for the cost of their non residential care services over the past six years, and will be required to refund them where this has been the case. A provision has been made in the 2013/14 Financial Statements for the estimated cost of refunding these clients.

### d) Other Provisions

All other provisions are individually insignificant.

## 21. Usable Reserves

Movements in the Council's usable reserves are detailed in the Transfers to/from Earmarked Reserve Statement **Note 9 (Transfer to /from) Earmarked Reserves** and **Note 10 (Adjustments Between Accounting Basis and Funding Basis Under Regulations)**.

## 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>2012/13</u> £000's		<u>2013/14</u> £000's
298,068	Balance Brought Forward	304,614
26,402	Upward revaluations of assets	9,059
(13,548)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,520)
310,922	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	312,153
(2,482)	Difference between fair value depreciation and historical cost depreciation	(2,500)
(3,826)	Accumulated Revaluations on Disposals	(11,829)
<u>304,614</u>	<b>Balance Carried Forward</b>	<u>297,824</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Capital Adjustment Account (CAA)

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

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

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

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

<u>2012/13</u> £000's		<u>2013/14</u> £000's
859,401	Balance Brought Forward	803,687
29	Prior Year Restatement	
<u>859,430</u>	Restated Balance Brought Forward	<u>803,687</u>
	<b>Capital Financing</b>	
11,393	Usable Capital Receipts	11,485
36,210	Capital Grants & Contributions	32,860
16,206	HRA Depreciation (formerly Major Repairs Allowance)	18,261
9,111	Revenue Contributions	11,449
	<b>Other Movements</b>	
(13,367)	Revenue Expenditure Funded from Capital under Statute	(11,885)
2,560	Repayment of Temporary Financing	5,750
	Net gains/losses from fair value adjustments on Investment Properties	(2,519)
(330)	Deferred Considerations	(347)
(86,653)	Depreciation & Impairment	(59,660)
(60,267)	Disposals	(54,773)
2,482	Historic Cost Depreciation Adjustment	2,500
3,826	Accumulated Revaluations on Disposals	11,829
20,396	MRP *	13,262
(2)	Other	(2)
<u><u>803,687</u></u>	<b>Balance Carried Forward</b>	<u><u>781,897</u></u>

\* **MRP** The Council by being "overly prudent" in the past, has provided for a greater charge from the general fund to MRP. To resolve this, the Council has recalculated the MRP for the years 2006/07 to 2013/14, using the value attributed to "Adjustment A" in 2004/05 which gives a cumulative reduction in the Council's MRP of £4.5m (of which £3.9m relates to prior years). The MRP for 2013/14 has therefore been reduced by £4.5m.

### 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.



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
(384,520)	Balance Brought Forward	(418,200)
(16,790)	Current Service Cost	(20,650)
(1,050)	Past Service Costs (added years)	(850)
(17,790)	Net Interest Costs	(18,210)
20,140	Payments to Pension Fund	20,430
(18,190)	Actuarial Gains /(Losses) on the Fund	106,090
<u>(418,200)</u>	<b>Balance Carried Forward</b>	<u>(331,390)</u>

### 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 and NDR tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
1,415	Balance Brought Forward	1,315
(100)	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	922
	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	(8,723)
<u>1,315</u>	<b>Balance Carried Forward</b>	<u>(6,486)</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>2012/13</u>		<u>2013/14</u>
£000's		£000's
(2,551)	Balance Brought Forward	(2,382)
2,551	Settlement or cancellation of accrual made at the end of the preceding year	2,382
(2,382)	Amounts accrued at the end of the current year	(2,043)
<u>(2,382)</u>	<b>Balance Carried Forward</b>	<u>(2,043)</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>2012/13</u> <u>Restated</u>		<u>2013/14</u>	
£000's		£000's	£000's
(72,169)	<b>Net Surplus or (Deficit) on the Provision of Services</b>		(41,087)
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>		
40,085	Depreciation	25,380	
45,807	Impairment and downward valuations	33,899	
761	Amortisation	381	
(140)	Adjustments for effective interest rates	(85)	
329	Net PFI Debtor Adjustments	347	
(25)	Increase/(Decrease) in Interest Creditors	(1,259)	
(4,520)	Increase/(Decrease) in Creditors	10,686	
137	(Increase)/Decrease in Interest and Dividend Debtors	(41)	
(15,154)	(Increase)/Decrease in Debtors	1,961	
(11)	(Increase)/Decrease in Inventories	(3)	
15,490	Pension Liability	19,280	
(276)	Contributions to/(from) Provisions	8,146	
(330)	Provision for Equal Pay		
60,267	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	54,773	
(2,692)	Movement in Investment Property Values	2,519	
(33)	Other Items	(3)	
<u>139,695</u>			<u>155,981</u>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>		
(35,319)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(32,441)	
3,000	Proceeds from the sale of short and long term investments	0	
(17,099)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(17,645)	
<u>(49,418)</u>			<u>(50,086)</u>
<u>18,108</u>	<b>Net Cash Flows from Operating Activities</b>		<u>64,808</u>

#### b) Operating Activities – Interest

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
944	Interest Received	650
(15,441)	Interest Paid	(16,523)

#### c) Cash Flows from Investing Activities

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
	<b>Cash Flows from Investing Activities</b>	
(65,263)	Property, Plant and Equipment Purchased	(67,618)
(119,806)	Purchase of short term investments	(26,000)
17,098	Proceeds from the sale of property plant and equipment, investment property and intangible assets	17,667
114,806	Proceeds from short-term and long-term investments	23,000
25,250	Other Receipts from Investing Activities - Capital Grants & Contributions Received	29,939
<u>(27,915)</u>	<b>Total Cash Flows from Investing Activities</b>	<u>(23,012)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Cash Flows from Financing Activities

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
	<b>Cash Flows from Financing Activities</b>	
50,000	Cash receipts of short and long term borrowing	20,000
(800)	Billing Authorities - Council Tax and NNDR adjustments	(458)
(35,912)	Repayment of Short-Term and Long-Term Borrowing	(62,484)
(2,508)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,463)
<u>10,780</u>	<b>Total Cash Flows from Financing Activities</b>	<u>(45,405)</u>

### e) Make-up of Cash and Cash Equivalents

<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
	<b>Makeup of Cash and Cash Equivalents</b>	
137	Cash and Bank Balances	126
50,780	Cash Investments - regarded as cash equivalents	48,082
(5,361)	Bank Overdraft	(6,261)
<u>45,556</u>		<u>41,947</u>

## 24. Acquired and Discontinued Operations

The Health and Social Care Act 2012 has provoked the most radical restructure of the National Health Service (NHS) since its inception. As part of its implementation, Primary Care Trusts (PCTs) have been abolished and replaced with Clinical Commissioning Groups (CCGs). One of the key outcomes of this move has been to transfer Public Health responsibilities to Local Authorities from 1 April 2013. This placed a responsibility on the Council to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health the Council received £14.3M as ring fenced grant in 2013/14. This figure will increase to £15.1M in 2014/15.

Public Health Southampton aims to:

- Maximise opportunities across the council and Southampton City Clinical Commissioning Group and with Public Health England to prevent poor health and to reduce health inequalities.
- Look to work with the services which impact on the wider determinants of health that the council has responsibility for, including housing, environmental health, planning, and transport to deliver health improvements.
- Use the public health outcomes framework as a tool to track progress and improvements in the health of people living in the city.

Public health also produces the Joint Strategic Needs Assessment for Southampton, which contains the data sets and other information that are used to inform commissioning decisions and which have been key to producing the new joint health and wellbeing strategy.

## 25. 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:

## 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 Tax payers.

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

### 26. Road Charging Schemes under the Transport Act 2000

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

### 27. Members' Allowances

The total of members' allowances paid in 2013/14 was £701,000, (2012/13 was £698,000) as detailed in the table below.

	<u>31 March</u> <u>2013</u> £000's	<u>31 March</u> <u>2014</u> £000's
Salaries	534	532
Allowances	161	165
Expenses	3	4
Total	<u>698</u>	<u>701</u>

### 28. 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Band £</b>		<b>Number of Employees</b>					
		<b>2012/13</b>			<b>2013/14</b>		
		<b>Schools</b>	<b>Other</b>	<b>Total</b>	<b>Schools</b>	<b>Other</b>	<b>Total</b>
50,000 -	54,999	39	22 *	61	47	31	78
55,000 -	59,999	31	8 *	39	27	9	36
60,000 -	64,999	24	3	27	21	6	27
65,000 -	69,999	11	9	20	14	6	20
70,000 -	74,999	4	5	9	5	7	12
75,000 -	79,999	4	4	8	2	5	7
80,000 -	84,999	2	4	6	2	4	6
85,000 -	89,999	3	2	5	2	2	4
90,000 -	94,999	1	1	2	4	0	4
95,000 -	99,999	0	2	2	1	1	2
100,000 -	104,999	1	0	1	0	1	1
105,000 -	109,999	0	0	0	0	0	0
110,000 -	114,999	1	0	1	0	3	3
115,000 -	119,999	0	1	1	0	1	1
120,000 -	124,999	0	0	0	0	1	1
125,000 -	129,999	0	0	0	0	0	0
130,000 -	134,999	0	0	0	0	1	1
135,000 -	139,999	0	0	0	1	1	2
145,000 -	149,999	1	1	2	0	1	1
210,000 -	214,999	0	1	1	0	0	0
		<b>122</b>	<b>63</b>	<b>185</b>	<b>126</b>	<b>80</b>	<b>206</b>

\* Figures restated (previously 19 and 7) as 22 and 8 respectively due to some omitted employees.

### 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 2012/13.

## NOTES TO THE CORE FINANCIAL STATEMENTS

2013/14

<u>Post Holder</u>	<u>Salary (including fees &amp; allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2013/14</u>	<u>Pensions contributions (see Note 8)</u>	<u>Total Remuneration including pension contributions 2013/14</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b>							
- Dawn Baxendale	145,720	182	-	-	145,903	19,089	164,992
<b>Assistant Chief Executive</b>							
- Suki Sitaram (see note 1)	87,120	480	-	-	87,600	11,413	99,013
<b>Director of Corporate Services</b>							
- Mark Heath	116,482	122	-	-	116,604	15,259	131,863
<b>Director of People</b>							
- Alison Elliott (see note 2)	132,375	772	-	-	133,147	17,341	150,488
<b>Director of Place (Environment &amp; Economy)</b> from 02/12/2013							
- Stuart Love (see note 3)	38,514	-	-	-	38,514	5,045	43,560
<b>Director of Public Health</b> from 01/04/2013							
- Andrew Mortimore (see note 4)	138,628	1,020	-	-	139,648	17,872	157,520
<b>Director of Children's Services &amp; Learning</b> until 14/04/2013							
- Clive Webster (see note 5)	4,655	23	-	-	4,678	610	5,288
<b>Chief Financial Officer</b>							
- Andrew Lowe	103,391	432	-	-	103,823	13,544	117,367
<b>Head of Strategic Human Resources</b> from 06/04/2013							
- Mike Watts (see note 6)	79,962	-	-	-	79,962	10,475	90,437
	<b>846,846</b>	<b>3,033</b>	<b>-</b>	<b>-</b>	<b>849,879</b>	<b>110,649</b>	<b>960,528</b>

**Note 1**

Role now formally part of Strategic Leadership Team (the Council's Management Team).

**Note 2**

Director of Children's Services & Learning post was merged with the Director of Health & Adult Social Care post to create a new Director of People post from April 2013. Since April 2013 this post has been filled by Alison Elliott.

**Note 3**

This role was undertaken from March to December 2013 by John Tunney via an external company. Payment for April to December 2013 was £96,000 excluding VAT.

**Note 4**

Responsibility for Public Health and staff transferred from NHS from 01/04/2013.

**Note 5**

Director of Children's Services & Learning post deleted. Compensation for loss of office for Clive Webster is accounted for and disclosed in 2012/13 despite being received by the employee in 2013/14.

**Note 6**

Role now formally part of Strategic Leadership Team (the Council's Management Team).

**Note 7**

There were no bonuses paid.

**Note 8**

In 2013/14 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

# NOTES TO THE CORE FINANCIAL STATEMENTS

2012/13

<u>Post Holder</u>	<u>Salary (including fees &amp; allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2012/13</u>	<u>Pensions contributions (see Note 8)</u>	<u>Total Remuneration including pension contributions 2012/13</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b> until 28/03/2013 - Alistair Neill	149,530	698	-	-	150,228	19,588	169,817
<b>Interim Chief Executive</b> from 01/03/2012 - Dawn Baxendale	11,446	-	-	-	11,446	1,499	12,946
<b>Director of Environment &amp; Economy</b> until 28/02/2013 - Dawn Baxendale (see note 1)	108,097	-	-	-	108,097	14,161	122,258
<b>Director of Children's Services &amp; Learning</b> until 30/04/2013 - Clive Webster (see note 2)	116,482	1,037	94,234	-	211,753	15,259	227,012
<b>Director of Corporate Services</b> - Mark Heath (see note 3)	92,287	172	-	-	92,459	13,326	105,785
<b>Head of Legal, HR &amp; Democratic Services</b> - Richard Ivory (see note 3)	23,900	188	-	-	24,088	3,131	27,219
<b>Director of Environment (Interim)</b> until 30/04/2012 - Frances Martin (see Note 4)	9,217	-	-	-	9,217	1,207	10,425
<b>Director of Health &amp; Adult Social Care</b> until 30/04/2012 - Penny Furness-Smith (see Note 5)	10,294	-	-	-	10,294	1,348	11,642
<b>Head of Finance &amp; IT (CFO)</b> - Andrew Lowe	97,799	707	-	-	98,507	12,812	111,318
	<b>619,053</b>	<b>2,802</b>	<b>94,234</b>	<b>0</b>	<b>716,089</b>	<b>82,332</b>	<b>798,421</b>

**Note 1**

This role has been undertaken in March 2013 by John Tunney via an external company. Payment for March was £10,200 excluding VAT.

**Note 2**

Director of Children's Services & Learning post deleted. Compensation for loss of office for Clive Webster is accounted for and disclosed in 2012/13 and hence is disclosed here despite being received by the employee in 2013/14.

**Note 3**

Mark Heath was on an unpaid sabbatical period from June 2012 to mid August 2012. The statutory Monitoring Officer role transferred to the Head of Legal, HR & Democratic Services for this period and therefore the remuneration for the Head of Legal, HR & Democratic Services between June 2012 and mid August 2012 is disclosed here.

**Note 4**

Frances Martin returned to her substantive post in May 2012. This post was covered by Stuart Love from 02/04/2012 to 30/06/2012 as a shared director with Isle of Wight Council. Southampton City Council contributed £14,797.50 towards the cost of Stuart Love's salary and on-costs. Full details of his remuneration can be found in the Isle of Wight Council Statement of Accounts 2012/13. Subsequently the Director of Environment post was merged with the Director of Economic Development post to create a new Director of Environment & Economy post.

**Note 5**

Director of Health & Adult Social Care post deleted. Compensation for loss of office for Penny Furness-Smith was accounted for in 2011/12 and disclosed in the 2011/12 Statement of Accounts. This post was covered by Margaret Geary from 01/05/2012 to 31/03/2013 as a shared director with Portsmouth City Council. Southampton City Council contributed £72,685.58 towards the cost of Margaret Geary's salary and on-costs. Full details of her remuneration can be found in the Portsmouth City Council Statement of Accounts 2012/13.

**Note 6**

Director of Children's Services & Learning post was merged with the Director of Health & Adult Social Care post to create a new Director of People post from April 2013. As of April 2013 this post is filled by Alison Elliott.

**Note 7**

There were no bonuses paid.

**Note 8**

In 2012/13 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£000's		£000's		£000's		£000's	
£0-£20,000	35	47	71	82	106	129	736	887
£20,001-£40,000	3	6	5	11	8	17	217	480
£40,001-£60,000	0	1	4	5	4	6	200	307
£60,001-£80,000	0	0	0	0	0	0	0	0
£80,001-£100,000	1	0	2	1	3	1	280	89
£100,001-£150,000	1	1	1	2	2	3	232	373
£150,000+	0	0	0	0	0	0	0	0
<b>Total</b>	<b>40</b>	<b>55</b>	<b>83</b>	<b>101</b>	<b>123</b>	<b>156</b>	<b>1,665</b>	<b>2,136</b>

### 29. External Audit Costs

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

2012/13 £000's	2013/14 £000's
213 Fees payable to Ernst Young with regard to external audit services carried out by the appointed auditor for the year	189
Fees payable to Ernst Young in respect of grant claims and returns for the year	33
42 Fees payable to the Audit Commission in respect of grant claims and returns for the	
(16) Audit Commission refund on 2012/13 Fees	(26)
2 Other Services	2
<b>241</b>	<b>198</b>

### 30. Dedicated Schools Grants

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

Details of the Deployment of DSG Receivable for 2013/14 are as Follows:			
	Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
Final DSG for 2013/14 before Academy recoupment			155,628
Academy figure recouped for 2013/14			(32,043)
<b>Total DSG after Academy Recoupment for 2013/14</b>			<b>123,585</b>
Plus: Brought forward from 2012/13			967
Less :Carry forward to 2013/14 agreed in advance			0
Agreed initial budgeted distribution in 2013/14	12,633	111,919	124,552
In year adjustments			0
<b>Final Budgeted Distribution for 2013/14</b>	<b>12,633</b>	<b>111,919</b>	<b>124,552</b>
Less: Actual central expenditure	(12,686)		(12,686)
Less: Actual ISB deployed to schools		(110,435)	(110,435)
<b>Carry Forward to 2013/14</b>	<b>(53)</b>	<b>1,484</b>	<b>1,431</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 31. 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, and
- 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 37 (Defined Benefit Pension Schemes)**; Hampshire Police Authority precept of £9.8M and Hampshire Fire & Rescue Authority precept of £4.1M, shown in the **Collection Fund Accounts**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

For the elected members and 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 the Group Director of Neighbourhood Services for Raglan Housing Association. The Council made revenue payments (Supporting People Grant) of approximately £179,000 to Raglan Housing Association in 2013/14; and

Raglan Housing Association also, under the terms of the land transfer deed, applied for and received consent from Southampton City Council to charge properties which were transferred from the Council in 1995.

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 2014, significant monies outstanding from related parties were:

<u>2012/13</u>	<u>Money Owed to SCC</u>	<u>2013/14</u>
£000's		£000's
2,806	HM Revenues & Customs (VAT)	5,301
3,775	Department for Works & Pensions (Housing Benefits)	250
1,913	Department of Communities and Local Government	1,159
	Department for Business, Innovation & Skills	2,047
	NHS England (NHS Commissioning Board)	3,971
<b>8,494</b>	<b>Balance Carried forward</b>	<b>12,728</b>
	<small>* Non material balances removed from previous years figures</small>	

There are no doubtful debts included within these figures.

## NOTES TO THE CORE FINANCIAL STATEMENTS

In contrast the Council owed money in respect of:

<u>2012/13</u>	<u>Money Owed by SCC</u>	<u>2013/14</u>
£000's		£000's
3,083	National Insurance & PAYE	2,611
3,412	Local Government Pensions	2,607
840	Teachers' Pensions	731
	Department for Works & Pensions (Housing Benefits)	1,452
<u>7,335</u>	<b>Balance Carried forward</b>	<u>7,401</u>

### 32. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2012/13</u>	<u>2013/14</u>
	£000's	£000's
<b>Opening Capital Financing Requirement</b>	<b>445,277</b>	<b>433,276</b>
<b>Capital Investment</b>		
Intangible assets	223	1,458
Property Plant & Equipment	64,845	64,087
PFI Scheme - Street Lighting	5,443	7,409
Revenue Expenditure Funded from Capital under Statute	13,367	11,885
Repayment of Temporary Financing	(2,560)	(5,750)
<b>Sources of Finance</b>		
Capital Receipts	(11,393)	(11,485)
Government grants & other contributions	(36,210)	(32,860)
HRA Depreciation (formerly Major Repairs Allowance)	(16,206)	(18,261)
Direct Revenue Financing	(9,111)	(11,449)
MRP	(20,396)	(13,262)
Other Adjustments	(3)	
<b>Closing Capital Financing Requirement</b>	<b>433,276</b>	<b>425,048</b>
<b>Explanation of Movements in Year</b>		
Previous Year Adjustment - Grants and Conds	(30)	
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,540	3,376
Repayment of Temporary Financing	(2,560)	(5,750)
MRP	(20,396)	(13,262)
PFI Schemes	5,443	7,409
Other Adjustments	2	(1)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b>(12,001)</b>	<b>(8,228)</b>

### 33. Leases

#### a) Council as a Lessor

##### Finance Leases

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

##### Operating Leases

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>31 March</u> <u>2013</u> <u>£000's</u>	<u>31 March</u> <u>2014</u> <u>£000's</u>
Not later than one year	6,932	5,365
Later than one year and not later than five years	22,057	17,131
Later than five years	1,630,762	1,566,251
	<u><u>1,659,751</u></u>	<u><u>1,588,747</u></u>

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

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There are no contingent rents receivables by the Council at 31 March 2014 and 31 March 2013.

### 34. 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

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>PFI - Street</u>	<u>Total</u>
	<u>£000's</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000's</u>
		<u>£000's</u>	<u>£000's</u>	
<b>Cost or Valuation</b>				
At 1 April 2013	58,379	13,966	11,565	83,910
Additions			7,409	7,409
Disposals				0
Revaluations				0
Impairments		(3,000)		(3,000)
<b>At 31 March 2014</b>	<b>58,379</b>	<b>10,966</b>	<b>18,974</b>	<b>88,319</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2013	(3,981)	(4,131)	(281)	(8,393)
Depreciation Charge for the Year	(1,326)	(644)	(385)	(2,355)
Disposals				0
Revaluations		325		325
Impairments		3,806		3,806
<b>At 31 March 2014</b>	<b>(5,307)</b>	<b>(644)</b>	<b>(666)</b>	<b>(6,617)</b>
<b>Balance Sheet amount at 31 March 2014</b>	<b>53,072</b>	<b>10,321</b>	<b>18,308</b>	<b>81,701</b>
<b>Balance Sheet amount at 31 March 2013</b>	<b>54,398</b>	<b>9,835</b>	<b>11,284</b>	<b>75,517</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>PFI - Schools</u>	<u>Hampshire Waste Contract</u>	<u>PFI - Street Lighting</u>	<u>Total</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Balance 1 April 2013	35,694	10,742	9,626	56,062
New Schemes in 2013/14			7,409	7,409
Repayments	(750)	(627)	(387)	(1,764)
<b>Balance 31 March 2014</b>	<b>34,944</b>	<b>10,115</b>	<b>16,648</b>	<b>61,707</b>
<b>Due within 1 Year</b>				
Balance 1 April 2013	750	627	387	1,764
Repayments	(750)	(627)	(387)	(1,764)
Due within 1 Year	896	677	146	1,719
<b>Balance 31 March 2014</b>	<b>896</b>	<b>677</b>	<b>146</b>	<b>1,719</b>
<b>Long Term Creditor Balance 31 March 2014</b>	<b>34,048</b>	<b>9,438</b>	<b>16,502</b>	<b>59,988</b>

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

	<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>	
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	
within 1 year	896	2,970	2,503	677	809	5,719	146	2,416	1,160	17,296
within 2 to 5 years	4,108	10,980	11,218	3,295	2,651	24,106	1,112	10,147	4,643	72,260
within 6 to 10 years	8,176	11,341	15,392	5,312	1,596	33,614	2,942	11,657	6,539	96,579
within 11 to 15 years	12,911	7,192	17,334	892	58	9,803	5,762	9,406	7,462	70,760
within 16 to 20 years	8,854	1,350	8,879				10,577	5,134	8,518	43,312
within 21 to 25 years							2,955	247	1,843	5,045
<b>Balance 31 March 2014</b>	<b>34,945</b>	<b>33,833</b>	<b>55,326</b>	<b>10,116</b>	<b>5,114</b>	<b>73,242</b>	<b>23,494</b>	<b>39,017</b>	<b>30,165</b>	<b>305,252</b>

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>	
	<u>£000's</u>	<u>£000's</u>	
within 1 year	2,492	1,432	3,924
within 2 to 5 years	9,968	5,727	15,695
within 6 to 10 years	12,460	7,159	19,619
within 11 to 15 years	11,638	7,159	18,797
within 16 to 20 years		7,159	7,159
within 21 to 25 years		1,217	1,217
<b>Balance 31 March 2014</b>	<b>36,558</b>	<b>29,853</b>	<b>66,411</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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's	£000's	£000's	£000's
PFI Schools	750	3,033	2,586	6,369
Hampshire Waste	627	859	5,601	7,087
PFI Street Lighting	387	1,663	1,129	3,179
BUPA Care Homes				
Northlands			2,466	2,466
Oak Lodge			1,410	1,410
<b>Totals</b>	<b>1,764</b>	<b>5,555</b>	<b>13,192</b>	<b>20,511</b>

### 35. Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14 incurring liabilities of £2.1M (£1.7M 2012/13) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. See **Note 28 (Officers Remuneration)** for the number of exit packages and the total cost per band. £94,234 which was accounted for in 2012/13 was paid in 2013/14 to Senior Officers as disclosed in **Note 28a 2012/13**.

### 36. 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 2013/14 the City Council paid £6.5M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £7.0M 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 37** below.

### 37. 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- **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 2013/14, the Council paid an employer's contribution of £20.4M (2012/13 - £20.1M) into Hampshire County Council's Pension Fund. The employer's rate set for 2011/12 to 2013/14 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2015 is £20.6M.

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.

	<u>Local Government Pension Scheme</u>		<u>Discretionary Benefits Arrangements</u>		<u>Totals</u>	
	<u>2012/13</u> <u>Restated</u> £000's	<u>2013/14</u> £000's	<u>2012/13</u> <u>Restated</u> £000's	<u>2013/14</u> £000's	<u>2012/13</u> <u>Restated</u> £000's	<u>2013/14</u> £000's
<b>Comprehensive Income and Expenditure Statement</b>						
<i>Cost of Services</i>						
Current service costs	16,790	20,650	0	0	16,790	20,650
Past service costs	1,050	850	0	0	1,050	850
Settlements and curtailments						
<i>Financing and Investment Income and Expenditure</i>						
Net Interest on the defined benefit liability (asset)	16,180	16,650	1,610	1,560	17,790	18,210
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>34,020</b>	<b>38,150</b>	<b>1,610</b>	<b>1,560</b>	<b>35,630</b>	<b>39,710</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>						
Actuarial (Gains) / Losses	14,460	(105,180)	3,730	(910)	18,190	(106,090)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>48,480</b>	<b>(67,030)</b>	<b>5,340</b>	<b>650</b>	<b>53,820</b>	<b>(66,380)</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made for retirement benefits in accordance with the Code	(34,020)	(38,150)	(1,610)	(1,560)	(35,630)	(39,710)
<b>Actual amount charged against the General Fund Balance for Pensions in the Year:</b>						
Employers' contributions payable to scheme	<b>17,770</b>	<b>18,070</b>			<b>17,770</b>	<b>18,070</b>
Retirement benefits payable to pensioners			<b>2,370</b>	<b>2,360</b>	<b>2,370</b>	<b>2,360</b>

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2014 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 £331.4M (2012/13 £418.2M) 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

	2009/10 £000's	2010/11 £000's	2011/12 £000's	2012/13 £000's	2013/14 £000's
Present value of funded Liabilities in scheme (LGPS)	(791,560)	(726,930)	(832,180)	(937,560)	(852,250)
Present value of unfunded liabilities (Teachers & LGPS)	(38,680)	(33,900)	(36,290)	(39,260)	(37,550)
Total present value of liabilities	(830,240)	(760,830)	(868,470)	(976,820)	(889,800)
Fair value of Share of Assets in the Fund (as per Accounts)	421,250	457,280	483,950	558,620	558,410
<b>Net Asset / (Liability)</b>	<b>(408,990)</b>	<b>(303,550)</b>	<b>(384,520)</b>	<b>(418,200)</b>	<b>(331,390)</b>

### 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 2014.

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

<b>Reconciliation of Present Value of Scheme Liabilities</b>				
<u>Unfunded</u>	<u>Funded</u>		<u>Unfunded</u>	<u>Funded</u>
<u>2012/13</u>	<u>Liabilities</u>		<u>2013/14</u>	<u>Liabilities</u>
<u>Restated</u>	<u>2012/13</u>		<u>2013/14</u>	<u>2013/14</u>
£000's	Restated		£000's	£000's
	£000's			
(36,290)	(832,180)	Opening Balance at 1 April	(39,260)	(937,560)
	(16,790)	Current Service Cost		(20,650)
(1,610)	(39,450)	Interest costs	(1,560)	(41,780)
	(5,750)	Contributions by Participants		(5,750)
(720)	1,340	Actuarial Gains / (Losses) on liabilities - experience	20	57,670
0	0	Actuarial Losses/(Gains) on liabilities - demographic assumptions	(1,170)	20,110
(3,010)	(65,490)	Actuarial Gains / (Losses) liabilities on - financial assumptions	2,060	52,320
2,370	21,810	Net Benefits Paid Out	2,360	24,240
-	(1,050)	Past Service Costs (added years)		(850)
<b>(39,260)</b>	<b>(937,560)</b>	<b>Closing Balance at 31 March</b>	<b>(37,550)</b>	<b>(852,250)</b>

<b>Reconciliation of Fair Value of Schemes Assets</b>		
<u>2012/13</u>		<u>2013/14</u>
<u>Restated</u>		
£000's		£000's
483,950	Opening Balance at 1 April	558,620
23,270	Interest Income on plan assets	25,130
49,690	Actuarial Gains / (Losses) on plan assets	(24,920)
17,770	Contributions	18,070
5,750	Contributions by participants	5,750
(21,810)	Net benefits paid out	(24,240)
<b>558,620</b>	<b>Closing Balance 31 March</b>	<b>558,410</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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:

	<b>2012/13</b>	<b>2013/14</b>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	24.0	24.4
Women	25.0	26.2
Longevity at 65 for future pensioners (currently aged 45):		
Men	25.7	26.5
Women	26.9	28.5
RPI Inflation	3.7%	3.4%
CPI Inflation	2.8%	2.4%
Rate of general long-term increase in salaries	4.7%	3.9%
Rate of increase in pensions in payment	2.8%	2.4%
Rate of increase to deferred pensions	2.8%	2.4%
Discount rate	4.5%	4.3%
Commutation:		
Take-up option to convert maximum amount permitted (including any lump sum from pre 2008 service) pension entitlements	N/a	70.0%
Take-up option to convert maximum amount permitted pre 1 April 2010 pension entitlements	25.0%	N/a
Take-up option to convert maximum amount permitted post 31 March 2010 pension entitlements	75.0%	N/a

### 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.

	<b>Asset Split at 31 March 2013 Total (%)</b>	<b>Asset Split at 31 March 2014</b>		
		<b>Quoted (%)</b>	<b>Unquoted (%)</b>	<b>Total (%)</b>
Equities	57.6	57.6	3.2	60.8
Property	7.8	7.5	0.0	7.5
Government Bonds	24.9	23.5	0.1	23.6
Corporate Bonds	1.3	1.4	0.2	1.6
Cash	2.3	3.8	0.0	3.8
Other Assets	6.1	0.2	2.5	2.7
<b>Total</b>	<b>100.0</b>	<b>94.0</b>	<b>6.0</b>	<b>100.0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

The actuarial gains/losses, following changes to IAS19, are identified as movements on the pensions Reserve in 2013/14 (2012/13 as restated) and analysed into amended categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2014.

	Actuarial Gain/(Loss) for Year										
	2009/10		2010/11		2011/12		2012/13 Restated		2013/14		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	85,600	20.3	(920)	(0.2)	(8,250)	(1.7)	-	-	-	-	of scheme assets
Experience gains and losses on pension liabilities	6,610	0.8	3,240	0.4	(8,440)	(1.0)	-	-	-	-	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(187,060)	(22.5)	12,660	1.7	(59,360)	(6.8)	-	-	-	-	of scheme liabilities
Actuarial Gains / (Losses) on plan assets							49,690	8.9	(24,920)	(4.5)	of scheme assets
Actuarial Gains / (Losses) on liabilities - experience							620	(0.1)	57,690	(6.5)	of scheme liabilities
Actuarial Losses/(Gains) on liabilities - demographic assumptions							0	0.0	18,940	(2.1)	of scheme liabilities
Actuarial Gains / (Losses) liabilities on - financial assumptions							(68,500)	7.0	54,380	(6.1)	of scheme liabilities
	<u>(94,850)</u>		<u>14,980</u>		<u>(76,050)</u>		<u>(18,190)</u>		<u>106,090</u>		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2014 is a loss of £204.8M.

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.

### 38. 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) Equal Pay Claims

The Council included a provision in the 2009/10 Financial Statements (which has been fully utilised) for the estimated cost of compensation payments arising from the 1997 Single Status Agreement, which are still under negotiation in relation to a specific group of outstanding equal pay claims. However, the Council recognises the potential that further equal pay claims may arise, some of which may lead to additional compensation agreements or to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

#### b) 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.

#### c) Municipal Mutual Insurance

The Scheme of Arrangement between MMI and its Scheme Creditors was triggered in 2012/13. An initial levy of 15% was imposed and a sum of £0.2M, based on the cost of claims paid by MMI on behalf of the council as at 31 December 2013 (less £0.05M retention exempt from the levy), was made to MMI in 2013/14. The payment was from amounts contained within the Insurance provision. With effect from 1 January 2014, all future claims' payments made by MMI will be at the reduced rate of 85%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The future impact on the Council as a scheme creditor is not clear although it is understood that the intention is to keep the levy rate at 15% unless there is a material change. The insurance provision includes a further provision of approximately £0.3M in respect of both claims paid at the reduced rate and for future levies, however, there is a risk that the Council's financial liability could increase beyond this level.

### 39. 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 2013/14 there were no relationships which would require the Council to produce Group Accounts.

### 40. Capital Grants and Contributions Receipts in Advance

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>2012/13</u>		<u>2013/14</u>	
£000's		£000's	
36,165	Balance Brought Forward	23,577	
16,330	Amounts Received in Year	21,374	
(28,918)	Amounts Applied to Finance Capital in year	(25,597)	
<u>23,577</u>	<b>Balance Carried forward</b>	<u>19,354</u>	

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

<u>2012/13</u>		<u>2013/14</u>	
£000's		£000's	£000's
	<b>Grants</b>		
	Department for Children, Schools and Families		
4,755	Framework Academies	30	
584	General Sure Start	57	
9,243	Basic Need Grant	8,699	
1,446	Schools Devolved Formula Grant	869	
2,219	Capital Maintenance Grant	3,637	
4,023	Primary Capital Programme	(16)	
976	Other	401	
			13,677
1,473	Department of Health		687
967	Department for Communities and Local Government		2,815
0	Department for Environment, Food and Rural Affairs		105
134	Heritage Lottery Fund		44
4,716	Department for Transport		6,178
747	Department for Business Innovation & Skills		26
431	Arts Council		4,722
<u>31,714</u>			<u>28,254</u>
<b>3,605</b>	<b>Contributions</b>		4,188
<u>35,319</u>	<b>Total</b>		<u>32,442</u>
<b>24,657</b>	<b>Credited to Capital Grants and Contributions CIES</b>		<b>21,481</b>
<b>10,662</b>	<b>Credited to Cost of Services</b>		<b>10,961</b>
<u>35,319</u>	<b>Total</b>		<u>32,442</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2012/13</u> £000's		<u>2013/14</u> £000's
<b>General Government Grants</b>		
1,892	Revenue Support Grant	72,687
1,017	Local Services Support Grant	129
10,985	Early Intervention Grant	0
2,156	Housing and Council Tax Benefit Grant	2,001
5,329	Learning Disability and Health Reform Allocation	0
2,080	Council Tax Freeze Grant	0
1,714	DCLG New Homes Bonus Scheme	2,992
1,097	DCLG - Waste Support Grant	2,373
328	Academies Transfer Funding 12-13 refund	391
0	Education Services Grant	3,061
0	DWP - City Deal Grant	3,600
5	Other	2,782
<b>26,603</b>		<b>90,016</b>
<b>Credited to Services</b>		
126,760	Dedicated Schools Grant (DSG)	123,585
	Public Health Grant	14,313
131,390	Housing Benefit Grant	114,997
5,400	Pupil Premium	7,490
5,859	Private Finance Initiative (PFI)	5,859
1,079	Local Sustainable Transport Fund	2,241
766	Troubled Families Grant	1,117
1,203	Adult and Community Learning - Skills Funding Agency	537
1,739	Other Grants	2,612
<b>274,196</b>		<b>272,751</b>

### 41. Non-Domestic Rates Redistribution

Business Rate Retention has been implemented from 1 April 2013

<u>2012/13</u> £000's	<b>Non Domestic Rates Redistribution</b>	<u>2013/14</u> £000's
-	SCC Retained Business Rates	49,534
-	SCC Share of Surplus/ (Deficit)	(8,722)
-	Top Up Payment	1,549
-	Safety Net Payment	1,593
<b>-</b>		<b>43,954</b>

### 42. Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. From 1 April 2004 the Council has been required to maintain memorandum accounts in respect of pooled fund accounts and the tables below show pooled funds with income/expenditure in excess of £2M.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### a) 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 Locally Based Hospital Unit in Southampton.

<u>2012/13</u>		<u>2013/14</u>
£000's	<b>Locality Based Hospital Units</b>	£000's
	<b>Funding - Contributions / Grants</b>	
(2)	Brought Forward	(6)
(1,693)	Southampton City Council	(1,693)
(1,777)	Southampton Clinical Commissioning Group	(1,777)
<u>(3,472)</u>		<u>(3,476)</u>
3,466	<b>Expenditure</b>	3,459
<u>(6)</u>	<b>Carried Forward</b>	<u>(17)</u>

### b) Public Health

Public Health funding was transferred to Local Authorities in 2013/14 having previously gone to Primary Care Trust's direct. However as there were already contractual arrangements in place to distribute the grant, £7M was earmarked to be allocated to the Clinical Commissioning Group to fulfil these existing commitments.

<u>2012/13</u>		<u>2013/14</u>
£000's	<b>Public Health Services</b>	£000's
	<b>Funding - Contributions / Grants</b>	
	Brought Forward	0
	Southampton City Council	(7,709)
<u>0</u>		<u>(7,709)</u>
	<b>Expenditure</b>	7,709
<u>0</u>	<b>Carried Forward</b>	<u>0</u>

## HOUSING REVENUE ACCOUNT

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

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

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

### Comprehensive Income and Expenditure Statement

<u>2012/13</u> <u>Restated</u>		<u>Notes</u>	<u>2013/14</u>
£000's	<u>Expenditure</u>		£000's
13,981	Repairs and Maintenance		16,946
15,109	Supervision and Management		16,661
4,672	Rents, Rates, Taxes and Other Charges		4,520
26,482	Depreciation Revaluation and Impairment of non-current assets	8	5,305
48	Debt management costs		46
540	Movement in the allowance for bad debts		1,191
<u>60,832</u>	<b>Total Expenditure</b>		<u>44,669</u>
	<b>Income</b>		
(65,151)	Dwellings Rent	2	(67,663)
(1,257)	Non-Dwelling Rents		(1,214)
(5,570)	Tenant Charges for Services & Facilities		(5,359)
481	Contributions Towards Expenditure		367
<u>(71,497)</u>	<b>Total Income</b>		<u>(73,869)</u>
(10,665)	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		(29,200)
368	HRA services' share of Corporate and Democratic Core		373
<u>(10,297)</u>	<b>Net Expenditure/ (Income) for HRA Services</b>		<u>(28,827)</u>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>		
(83)	Capital Receipts not matched by Disposal of Assets		(134)
(69)	Investment Property Revaluation Movements	8	(894)
5,717	Interest payable and similar charges		5,396
(35)	Interest and investment income		(34)
1,872	Pensions interest cost and expected return on pension assets	11	2,085
(1,352)	Capital grants and contributions receivable		(121)
<u>(4,247)</u>	<b>(Surplus) / Deficit for the Year on HRA Services</b>		<u>(22,529)</u>

## HOUSING REVENUE ACCOUNT

### Statement of Movement on the HRA Balance

<u>2012/13</u> <u>Restated</u> £000's		<u>2013/14</u>		
		£000's	£000's	£000's
(2,621)	Balance on the HRA at the end of the previous year			(3,289)
(4,247)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(22,529)		
5,948	Adjustments between accounting basis and funding basis under statute	23,558		
<u>1,701</u>	(Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves.		1,029	
(2,369)	Transfer to / (from) reserves		<u>(18)</u>	
(668)	(Increase) / decrease in year on the HRA			1,011
<u>(3,289)</u>	<b>Housing Revenue Account Surplus Carried Forward</b>			<u>(2,278)</u>

### Note to Statement of Movement on the HRA Balance

<u>2012/13</u> <u>Restated</u> £000's		<u>2013/14</u>	
		£000's	£000's
	<b>Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
83	Capital Receipts not matched by Disposal of Assets	134	
992	Capital grants and contributions applied	139	
(13)	Amortisation of Item 8 Discount	(394)	
(10,206)	Impairment and Revaluation of Fixed Assets	13,850	
(3,748)	Net Charges made for retirement benefits in accordance with IAS 19	(4,547)	
<u>(12,892)</u>			<u>9,182</u>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
2,118	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,339	
10,434	Principal Repayments	5,551	
<u>6,288</u>	Capital Expenditure funded by the HRA	<u>6,486</u>	
<u>18,840</u>			<u>14,376</u>
<u>5,948</u>	<b>Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year</b>		<u>23,558</u>

# HOUSING REVENUE ACCOUNT

## 1. Prior Year Adjustment – IAS 19 – Employee Benefits

This standard was amended in 2011 and the changes which relate to the creation of some new classes of components of defined benefit costs and the re-measurement of the net defined benefit liability requires prior year adjustments to the HRA Comprehensive Income and Expenditure Statement. As the expense is notional and reversed out via the Movement in Reserve Statement (MiRS) it has no overall impact on the Balance Sheet.

<u>Local Government Pension Scheme</u>			
	<u>2012/13</u>	<u>Adjustments</u>	<u>2012/13</u>
	<u>Accounts</u>		<u>Restated</u>
	<u>£000's</u>		<u>£000's</u>
<b>Income and Expenditure Account</b>			
Net Cost of Service			
Current service costs	1,685	81	<b>1,766</b>
Past service costs	110		<b>110</b>
<i>Financing, Investment Income and Expenditure</i>			<b>0</b>
Interest Cost	4,374	(2,502)	<b>1,872</b>
Expected return on assets in the scheme	(3,233)	3,233	
<b>Amounts to be Met from HRA</b>			
Movement on pensions reserve	(818)	(812)	<b>(1,630)</b>
<b>Actual Amount Charged Against HRA</b>			
Employer's contributions payable to scheme	<u>2,118</u>	<u>0</u>	<u>2,118</u>

## 2. Council House Rents

At 31 March 2014, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 5.56% (31 March 2013 – 5.63%). The total arrears were £2.933M (31 March 2013 - £2.981M). Rents written off during the year amounted to £526,000 (last year £243,000).

The main sources of rent income after allowing for voids of £951,000 (last year £1.07M) are set out in the following table:

<u>2012/13</u>		<u>2013/14</u>
<u>£000's</u>		<u>£000's</u>
25,551	Rent met by Tenants	27,279
39,600	Rent Rebates	40,384
<u>65,151</u>		<u>67,663</u>

## 3. Major Repairs Reserve

<u>Total</u>		<u>Land</u>	<u>Dwellings</u>	<u>Other</u>	<u>Total</u>
<u>2012/13</u>		<u>2013/14</u>	<u>2013/14</u>	<u>2013/14</u>	<u>2013/14</u>
<u>£000's</u>		<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
0	Opening Balance				0
(16,206)	Receipts in Year		(18,193)	(68)	(18,261)
16,206	Payments in Year		18,193	68	18,261
<u>0</u>	<b>Closing Balance</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>



# HOUSING REVENUE ACCOUNT

## 4. Housing Stock

During the year 1.39% (1.32% for 2012/13) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2013/14 was £78.53 a week (£75.00 for 2012/13). The stock at the year-end was made up as follows:

<u>2012/13</u>		<u>2013/14</u>	
16,876	Stock at 1st April	16,807	
(83)	Less: Sales	(106)	
16	Plus: Conversions	2	
(2)	Other/Demolitions	(1)	
<b>16,807</b>	<b>Stock at 31st March</b>	<b>16,702</b>	
<u>Consisting of :</u>			
5,417	Houses	5,364	
11,374	Flats	11,322	
16	Bungalows	16	
<b>16,807</b>		<b>16,702</b>	

## 5. Capital Expenditure

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

<u>2012/13</u>		<u>2013/14</u>	
£000's		£000's	
24,270	Housing Stock	30,587	
0	Council Housing - Self Financing Settlement	0	
<b>24,270</b>	<b>Total Capital Expenditure</b>	<b>30,587</b>	
<u>Capital Expenditure Source of Finance</u>			
£000's		£000's	
784	Capital Receipts	5,701	
0	Unsupported Borrowing	0	
569	Grants	0	
16,206	Depreciation (formerly Major Repairs Allowance)	18,261	
423	Contributions	139	
6,288	Direct Revenue Funding	6,486	
<b>24,270</b>	<b>Total Financing</b>	<b>30,587</b>	

## 6. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. 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. In 2013/14 the Council had £2.46M of receipts from right to buy sales that can be utilised on new build affordable housing projects.

## HOUSING REVENUE ACCOUNT

<u>2012/13</u> £000's		<u>2013/14</u> £000's
1,864	Opening Balance at 1st April	5,588
	Receipts in Year:-	
	Sale of Assets	
3,211	Council Housing	5,814
2,529	Land, Buildings & Equipment	809
18	Repayment of Advances	11
<u>7,622</u>		<u>12,222</u>
(83)	Allowable deduction arising from Disposal	(134)
<u>7,539</u>		<u>12,088</u>
	Application in Year:-	
(340)	Inter Portfolio Transfer	(398)
(784)	Financing of new HRA Capital Expenditure	(5,701)
(827)	Pooled Receipts	(940)
	Other Adjustments	
<u><u>5,588</u></u>	Closing Balance at 31st March	<u><u>5,049</u></u>

### 7. Impairment Allowance for Bad Debts

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

<u>2012/13</u> £000's		<u>2013/14</u> £000's
604	MRC Bad Debt Provision	570
1,642	Rents Bad Debt Provision	1,928
<u><u>2,246</u></u>		<u><u>2,498</u></u>

### 8. Fixed Assets

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 1s (Accounting Policies)**.

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2013 was £1.216M, 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 2014.

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

# HOUSING REVENUE ACCOUNT

Movements in Fixed Assets During 2013/14							
	Property, Plant and Equipment (PPE)			Assets Held for Sale	Investment	Total	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Total PPE			
	£000's	£000's	£000's	£000's	£000's	£000's	
<b>Cost or Valuation</b>							
At 1 April 2013	469,975	4,056	648	474,679	1,328	7,186	483,193
Additions	30,524			30,524		63	30,587
Disposals	(5,929)			(5,929)	(694)		(6,623)
Reclassifications	457			457			457
Revaluations	13,479	111		13,590		894	14,484
Impairments				0	(634)		(634)
<b>At 31 March 2014</b>	<b>508,506</b>	<b>4,167</b>	<b>648</b>	<b>513,321</b>	<b>0</b>	<b>8,143</b>	<b>521,464</b>
<b>Depreciation and Impairment</b>							
At 1 April 2013		0	(443)	(443)	0	0	(443)
Depreciation charge for year	(18,193)		(68)	(18,261)			(18,261)
Disposals				0			0
Reclassifications				0			0
Revaluations				0			0
Impairments				0			0
<b>At 31 March 2014</b>	<b>(18,193)</b>	<b>0</b>	<b>(511)</b>	<b>(18,704)</b>	<b>0</b>	<b>0</b>	<b>(18,704)</b>
<b>Balance Sheet amount at 31 March 2014</b>	<b>490,313</b>	<b>4,167</b>	<b>137</b>	<b>494,617</b>	<b>0</b>	<b>8,143</b>	<b>502,760</b>
<b>Balance Sheet amount at 31 March 2013</b>	<b>469,975</b>	<b>4,056</b>	<b>205</b>	<b>474,236</b>	<b>1,328</b>	<b>7,186</b>	<b>482,750</b>
<b>Nature of Asset Holding</b>							
Owned	490,313	4,167	137	494,617	0	8,143	502,760
Finance Lease							0
PFI							0
	<b>490,313</b>	<b>4,167</b>	<b>137</b>	<b>494,617</b>	<b>0</b>	<b>8,143</b>	<b>502,760</b>

## 9. Direct Revenue Financing Reserve

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

<u>2012/13</u> £000's		<u>2013/14</u> £000's
(2,728)	<b>Direct Revenue Financing Reserve</b>	
(3,560)	Direct Revenue Financing Balance Brought Forward	0
6,288	Contribution From Revenue In Year	(6,486)
<u>0</u>	Applied for Capital	<u>6,486</u>
	<b>Balance Carried Forward</b>	<u>0</u>

## 10. Minimum Revenue Provision (MRP)

A voluntary MRP payment of £5.6M was made in 2013/14 (£10.4M – 2012/13).

## 11. Pensions

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

## HOUSING REVENUE ACCOUNT

<u>Local Government Pension Scheme</u>		
	<u>2012/13</u>	<u>2013/14</u>
	£000's	£000's
<b>Income and Expenditure Account</b>		
Net Cost of Service		
Current service costs	1,766	2,365
Past service costs	110	97
<i>Financing, Investment Income and Expenditure</i>		
Interest Cost	1,872	2,085
<b><u>Amounts to be Met from HRA</u></b>		
Movement on pensions reserve	(1,630)	(2,208)
<b><u>Actual Amount Charged Against HRA</u></b>		
Employer's contributions payable to scheme	<u>2,118</u>	<u>2,339</u>

### 12. Item 8 Credit and Debit (General) Determination

The 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 the Item 8 Credits and Debits made to the Housing Revenue Account.

<u>Item 8 Credit and Debit (General) Determination</u>		
<u>2012/13</u>		<u>2013/14</u>
£000's		£000's
(35) Interest and Investment Income		(34)
(10,206) Impairments and Revaluation of Fixed Assets		13,850
(13) Amortisation of Item 8 Discount		(394)
<u>(10,254)</u>		<u>13,422</u>
<b>£000's</b>		<b>£000's</b>
5,717 Interest payable and similar charges		5,396
16,276 Depreciation		18,261
10,206 Impairments and Revaluation of Fixed Assets		(13,850)
10,434 Principal Repayments		5,551
48 Debt management costs		46
<u>42,681</u>		<u>15,404</u>
<u>32,427</u>	<b>Net Item 8 (Credit)/ Debit</b>	<u>28,826</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 the 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.

<b>Income and Expenditure for the Year Ended 31 March 2014</b>				
<b>2012/13</b>		<b>2013/14</b>		
<b>£000's</b>	<b>Council Tax</b>	<b>Notes</b>	<b>£000's</b>	<b>£000's</b>
	<b>Income</b>			
(79,360)	Income due from Council Tax Payers	2	(85,798)	
	Transfers from the General Fund			
(18,599)	- Council Tax Benefits		0	
(991)	- Local Council Tax Discount		4	
	- Transitional Relief		1	
<b>(98,950)</b>				<b>(85,793)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax			
373	- Southampton City Council			1,041
44	- Hampshire Police Authority			123
18	- Hampshire Fire & Rescue Service			52
<b>(98,515)</b>	<b>Total Income</b>			<b>(84,577)</b>
	<b>Expenditure</b>			
	Precepts			
83,206	- Southampton City Council Precept	2	70,049	
9,820	- Hampshire Police Authority Precept	2	8,390	
4,121	- Hampshire Fire & Rescue Authority Precept	2	3,405	
<b>97,147</b>				<b>81,844</b>
	Bad and Doubtful Debts			
636	- Write Offs	6	1,153	
848	- Provisions	6	504	
<b>1,484</b>				<b>1,657</b>
<b>98,631</b>	<b>Total Council Tax Expenditure</b>			<b>83,501</b>
<b>116</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>			<b>(1,076)</b>
(1,652)	Council Tax - Deficit / (Surplus) Brought Forward			(1,536)
<b>(1,536)</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>	8		<b>(2,612)</b>
	<b>Business Rates</b>			
	<b>Income</b>			
(97,404)	Income Collectable from Business Ratepayers			(100,877)
	<b>Expenditure</b>			
96,748	- Payment to National Pool (Old System)			
	- Payment to DCLG - Transitional Arrangements		1,143	
	- Payment to DCLG - Business Rate Retention		50,545	
	- SCC Business Rates Retention		49,534	
	- HFRA Precept		1,011	
6	- Interest on Overpayments		2	
322	- Costs of Collection		322	
<b>97,076</b>				<b>102,557</b>
	Bad and Doubtful Debts			
768	- Write Offs	6	1,192	
(440)	- Provisions	6	(216)	
	- Appeals Provision	7	15,145	
<b>328</b>			16,121	<b>16,121</b>
<b>97,404</b>	<b>Total Business Rates Expenditure</b>			<b>118,678</b>
<b>0</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>			<b>17,801</b>
0	Business Rates - Deficit / (Surplus) Brought Forward			0
<b>0</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>	8		<b>17,801</b>
<b>(1,536)</b>	<b>Total Collection Fund (Surplus) / Deficit</b>			<b>15,189</b>

# 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.

In 2013/14 the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme 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 2013/14 was 56,661 (68,305 in 2012/13). This reduction between financial years is as a result of the Government's Council Tax Localisation changes which revised the way Central Government funds Council Tax benefit compensation to the Council. The tax base for 2013/14 was calculated as follows:

	<u>Net Chargeable</u>	<u>Relevant</u>	<u>Band D</u>
	<u>Dwellings</u>	<u>Proportion</u>	<u>Equivalents</u>
Band A Disabled	51	5/9	28
Band A	15,914	6/9	10,610
Band B	23,165	7/9	18,017
Band C	17,050	8/9	15,155
Band D	7,409	9/9	7,409
Band E	2,527	11/9	3,088
Band F	1,212	13/9	1,751
Band G	359	15/9	598
Band H	3	18/9	5
	<u>67,690</u>		<u>56,661</u>

## THE COLLECTION FUND

Taking the total Band D equivalents of 56,661 and multiplying this by the standard Council Tax of £1,475.42 gives a total estimated income from taxpayers of £83.6M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2013/14 was 97.9%, giving a net Council Tax Base of 55,471.7. Multiplying this by the standard Council tax of £1,475.42 gives the total precepts on the Collection Fund of £81.8M.

### 3. Non-Domestic Rates (NDR)

From 1 April 2013 the arrangements in respect of NDR changed from a position where the Authority purely collects business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years, and appeals that were not resolved before that date.

When the scheme was introduced, 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 received a top-up grant to the General Fund of £1.5M for 2013/14.

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. For Southampton the value of the safety net figure is £44.7M. The comparison of business rate income to the safety net uses the total income collected from business rate payers, adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and the revision to Small Business Rate Relief (announced in the Autumn Statement 2012) not allowed for when the safety net was set.

As well as the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the VOA and hence business rates outstanding as at 31 March 2014. As such authorities are required to make provisions for these amounts. Appeals are charged and provided for in proportion of the precepting shares.

The Council, in preparing the 2013/14 NNDR1 return to Government, estimated the business rates shares payable for 2013/14 before the start of the financial year as £50.5M to Central Government, £1.0M to Hampshire Fire and Rescue Service and £49.5M to Southampton City Council. These sums have been paid in 2013/14 and charged to the collection fund in year.

The rateable value at 31 March 2014 was £253.1M (£259.3M at 31 March 2013). The national multipliers for 2013/14 were 46.2p for qualifying Small Businesses, and the standard multiplier was 47.1p for all other businesses (45.0p and 45.8p respectively for 2012/13).

The total income from business rate payers collected net of reliefs was £100.9M (£97.4M 2012/13). This sum includes £1.1M of transitional protection payments from ratepayers, which under Government regulation, should have a neutral impact on the business rate retention scheme. This sum is due to be repaid to Central Government.

However, Southampton grossly underestimated the impact of potential losses for prior years' and 2013/14 appeals within the NDR at £5.8M.

Detailed analysis of refunds made over a number of years, and appeals yet to be settled, indicated that the starting appeals provision for 2013/14 should have been approximately £21.4M, of which £14.1M related to appeals prior to the 2013/14 financial year.

This underestimate of the starting appeals provision, along with a substantial reduction to Southampton's Rateable value, has resulted in an NDR Collection Fund deficit in 2013/14 of approximately £17.8M of which Southampton's share is £8.7M (49%).

The Council has opted not to spread the impact of the appeals provision over five years, as allowed under the recently laid regulations, resulting in an estimated safety net payment to the General Fund of approximately £1.6M for 2013/14.

# THE COLLECTION FUND

## 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 £1.7M in 2013/14. At 31 March 2014 the provision totalled £7.1M (SCC share £6.1M) against a liability of £10.1M (SCC share £8.6M).

The contribution to the NDR Impairment Allowance was £1.0M in 2013/14. At 31 March 2014 the provision totalled £1.2M (SCC share £0.6M) against a liability of £3.7M (SCC share £1.8M).

## 7. Appeals Provision

The starting appeals provision, following a detailed analysis of refunds made over a number of years, and appeals yet to be settled, was calculated at approximately £21.4M of which £14.1M related to appeals prior to the 2013/14 financial year. Refunds of £6.3M against this provision have been made in 2013/14 (£4.6M prior years), resulting in a closing appeals provision of £15.1M (£9.5M prior years). SCC's share of the year end provision is £7.4M (£4.7M prior years).

## 8. Collection Fund Balance

The Total Collection Fund deficit carried forward for the year is £15.2M. A year end surplus on Council Tax of (£2.6M) and a year end deficit of £17.8M on NDR.

### Council Tax

The year end balance on the Council Tax element of the Collection Fund of £2.6M 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 £2.2M and is shown as a revenue balance in the Balance Sheet. The remaining £0.4M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

### NDR

The year end balance NDR element of the Collection Fund of £17.8M deficit can be apportioned to Central Government £8.9M (50%), Hampshire Fire and Rescue Authority £0.2M (1%) and Southampton £8.7M. These amounts are included within the adjustments required to derive NDR Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund balance between 31 March 2014 and 31 March 2013 was a reduction of £7.8M - £0.9M increase due to Council Tax and £8.7M decrease relating to NDR - giving a deficit balance, after taking into account the £1.3M surplus brought forward, of £6.5M being carried forward to 2014/15. The £7.8M deficit has been debited 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).



## TRUST AND OTHER FUNDS

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

Following the introduction of the Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005), a separate statement of financial affairs and a balance sheet relating to the trust funds are reported in this section.

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

The fund is analysed as follows:

	<u>31 March</u> <u>2013</u> £000's	<u>Receipts</u> £000's	<u>Payments</u> £000's	<u>31 March</u> <u>2014</u> £000's
Wessex Slaughterhouse Board	(94)	(1)	2	(93)
<b>Total</b>	<b>(94)</b>	<b>(1)</b>	<b>2</b>	<b>(93)</b>

The Trust Funds 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 Trust Funds 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.

## TRUST AND OTHER FUNDS

The Balance Sheet shows the assets and liabilities of the Trust funds as at the Balance Sheet date. The net assets (assets minus liabilities) are matched by reserves. Where a Trust Fund holds Investments, there is an Unrealised Gains / Losses Account in the reserves which collects any gain or loss on the investment as at the Balance Sheet date.

<b>Balance Sheet as at 31 March 2014</b>		
<b>31 March 2013 £000's</b>		<b>31 March 2014 £000's</b>
	<b>Fixed Assets</b>	
	<b>Investments</b>	
77	Chipperfield Trust	71
209	Aldridge Bequest	203
4	Minor Trust Funds	4
<b>290</b>	<b>Total Fixed Assets</b>	<b>278</b>
	<b>Currents Assets</b>	
	<b>Internal Investments Accounts and Cash</b>	
76	Chipperfield Trust	76
33	LC Smith Bequest	34
118	Miss Orris Bequest	111
135	Aldridge Bequest	107
33	Minor Trust Funds	33
<b>395</b>	<b>Total Investment Accounts</b>	<b>361</b>
	<b>Debtors</b>	
2	Chipperfield Trust	2
<b>2</b>	<b>Total Debtors</b>	<b>2</b>
<b>687</b>	<b>Net Current Assets</b>	<b>641</b>
<b>687</b>	<b>Net Assets</b>	<b>641</b>
	<b>Trust Funds</b>	
150	Chipperfield Trust	150
5	Chipperfield Trust Unrealised Gains/(Losses) Account	(1)
33	LC Smith Bequest	34
118	Miss Orris Bequest	111
243	Aldridge Bequest	215
101	Aldridge Bequest Unrealised Gains/(Losses) Account	95
38	Minor Trust Funds	38
(1)	Minor Trust Funds Unrealised Gains/(Losses) Account	(1)
<b>687</b>		<b>641</b>

## TRUST AND OTHER FUNDS

<u>2012/13</u>		<u>Reconciliation of Funds</u>	<u>2013/14</u>	
<u>Balance</u>			<u>Net</u>	<u>Balance</u>
<u>B/fwd</u>			<u>Movement</u>	<u>C/fwd</u>
<u>£000's</u>			<u>in Funds</u>	<u>£000's</u>
			<u>£000's</u>	
(155)	Chipperfield Trust		6	(149)
(33)	LC Smith Bequest		(1)	(34)
(118)	Miss Orris Bequest		7	(111)
(344)	Aldridge Bequest		34	(310)
(37)	Minor Trust Funds		0	(37)
<b>(687)</b>	<b>Total Funds</b>		<b>46</b>	<b>(641)</b>

This statement shows the income and expenditure for the year and includes unrealised gains and losses for investments in the financial year.

<u>Statement of Financial Activities for the Year Ending 31 March 2014</u>					
<u>2012/13</u>		<u>2013/14</u>			
<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
<u>£000's</u>	<u>Resources Expended and (Incoming Resources)</u>	<u>Notes</u>	<u>£000's</u>	<u>£000's</u>	
(3)	Chipperfield Trust	4/5/7	8	(8)	0
0	LC Smith Bequest			(1)	(1)
(1)	Miss Orris Bequest		20	(13)	7
18	Aldridge Bequest		37	(9)	28
2	Minor Trust Funds				0
<b>16</b>	<b>Total Net Incoming Resources before Other Recognised Gains and Losses</b>		<b>65</b>	<b>(31)</b>	<b>34</b>
	<b>Unrealised (Gains) and Losses on Investment Assets</b>				
0	Chipperfield Trust	6		6	6
(13)	Aldridge Bequest			6	6
<b>(13)</b>	<b>Total Unrealised (Gains) and Losses on Investment Assets</b>			<b>12</b>	<b>12</b>
	<b>Net Movement in Funds</b>				
(3)	Chipperfield Trust				6
0	LC Smith Bequest				(1)
(1)	Miss Orris Bequest				7
5	Aldridge Bequest				34
2	Minor Trust Funds				0
<b>3</b>	<b>Total Net Movement in Funds</b>				<b>46</b>

### 1. Basis of Accounting

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

# TRUST AND OTHER FUNDS

## 2. Change in the Basis of Accounting

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

## 3. Changes to Previous Accounts

There have been no changes.

## 4. Incoming Resources

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

## 5. Investment Income

This is included in the accounts when receivable.

## 6. Investment Gains and Losses

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

## 7. Analysis of Incoming Resources

<u>Analysis of Incoming Resources</u>					
<u>2012/13</u>		<u>Grants &amp; Contributions</u>	<u>Dividends - Unit Trusts and Gilts</u>	<u>2013/14</u>	<u>Total Incoming Resources</u>
<u>Net Total Incoming Resources</u>				<u>Investment Interest *</u>	
£ 000's			£ 000's	£ 000's	£ 000's
(3)	Chipperfield Trust	(5)	(12)		(17)
(1)	Miss Orris Bequest	(12)			(12)
(11)	Aldridge Bequest		(9)	(1)	(10)
<u>(15)</u>	<b>Total</b>	<u>(17)</u>	<u>(21)</u>	<u>(1)</u>	<u>(39)</u>

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

## 8. Other Expenditure Disclosures

Expenditure for the year was nil for the following items

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

## **GLOSSARY**

### **1. Accruals**

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

### **2. Best Value**

A Government initiative introduced in 1998 in a series of pilot projects, and now supported by legislation in 1999, that is aimed at measuring the economy, efficiency and effectiveness of all local authority services.

### **3. Budget**

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

### **4. Capital Asset Charges**

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

### **5. Capital Adjustment Account (CAA)**

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

### **6. Capital Expenditure**

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

### **7. Capital Receipts**

The proceeds from the sale of capital assets.

### **8. Community Assets**

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

### **9. Consistency**

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

### **10. Contingency**

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

### **11. Council Tax**

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

### **12. Creditor**

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

### **13. Debtor**

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

## **GLOSSARY**

### **14. Depreciation**

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

### **15. 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.

### **16. Fair Value**

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

### **17. 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.

### **18. 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.

### **19. Financial Instrument**

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

### **20. 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.

### **21. 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.

### **22. General Fund**

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

### **23. Going Concern**

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

### **24. Government Grants**

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

## **GLOSSARY**

### **25. Heritage Assets**

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

### **26. Housing Revenue Account**

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

### **27. Impairment**

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

### **28. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

### **29. International Financial Reporting Standard (IFRS)**

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

### **30. Long Term Investments**

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

### **31. Long-Term Contracts**

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

### **32. Materiality**

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

### **33. 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.

### **34. Money Market Funds**

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

### **35. 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%)

### **36. Net Book Value**

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

## GLOSSARY

### **37. Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement, or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### **38. Net Expenditure**

Total expenditure for a service less directly related income.

### **39. 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.

### **40. Non-Operational Assets**

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

### **41. Operating Leases**

A lease other than a finance lease (see 24).

### **42. Operational Assets**

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

### **43. 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.

### **44. Prepayments**

Payment for goods and services in advance of receipt, and are therefore treated as a debtor at the Balance Sheet date.

### **45. 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.

### **46. Property, Plant and Equipment**

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

### **47. 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.

### **48. 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.



## **GLOSSARY**

### **49. 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.

### **50. Revenue Expenditure / Income**

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

### **51. 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.

### **52. Stocks**

Comprise the following categories:

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

### **53. Supported Borrowing**

Borrowing that is supported by Government financial assistance.

### **54. Unsupported Borrowing**

Borrowing that is not supported by Government financial assistance.

### **55. Useful Life**

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