



2020/21
DRAFT FINANCIAL STATEMENTS



STATEMENT OF ACCOUNTS

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

As Cabinet Member for Finance for Southampton City Council, I am very pleased to be able to present to you the Statement of Accounts for 2020/21.

The authority provides a diverse range of services to its residents. These services include (among others) Adults Social Care, Children's Social Care, Schools, Refuse Collection and Waste management, Leisure, Libraries, Housing Services (including the provision of around 15,900 houses and flats within the Housing Revenue Account), Car Parking, Environmental Health, Economic Development, Planning and Development Control and many more which support our families, communities, and businesses.

The last financial year has been an exceptional one and has placed major pressure on many of our public services, including the Council. During 2020/21, the Council has needed to prioritise its focus onto the Coronavirus pandemic threat we all face and swiftly re-focus resources to ensure our residents and communities have the maximum support we can provide. I wish to express my sincere thanks to all our staff for their work and dedication during this most difficult of years.

Additional financial support from central government assisted the Council in meeting the financial impact arising from the pandemic. Further funding support came in different guises. For example, there was also considerable funding support to business impacted by the pandemic, which came from Government but flowed through the Council acting as an agent to ensure businesses received help with their business rates or financial support during period of lock down. There were many other initiatives the Council was at the heart of, including operating emergency food hubs, supporting the care market, providing Covid safe home to school transport and applying a £150 discount from council tax for those entitled to claim local council tax support (with assistance from Government funding). You will find more detail on these and other measures referenced below showing how the Council has carried out this work as a part of these Statement of Accounts.

The Council faces a continued challenge with the pandemic crisis and also an environment of where the costs and demands on our services are growing each year and resources are finite. The effects of the pandemic also brings uncertainty over future costs and funding for the authority, but I am confident based on how well our staff have met these challenges to date that the authority will continue to meet these challenges into the future on behalf of all our local residents. The pandemic has presented a 'once in a hundred year' challenge to us, but Southampton Council will continue to be well placed to support all our residents as we emerge from this crisis in the coming weeks and months.

NARRATIVE STATEMENT

Message from the Executive Director for Finance, Commercialisation & S151 Officer, John Harrison

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2020 to 31 March 2021. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. Management of risk and promoting financial resilience was a key principle behind the budget strategy and this has helped facilitate the council in being fully able to respond and help our residents and their communities during the pandemic crisis, which has dominated the financial year. My priority during 2020/21 has therefore been to ensure that the Finance Service provided efficient and effective support to the Council in all its efforts to combat and contain the effects of the Covid-19 pandemic, whilst still continuing to support the delivery of members' vision and deliver the priorities agreed by councillors.

Across the Council, staff have been called on to support efforts to help against the impact of the pandemic. Examples from my own Finance staff are given below, and further examples from across the Council are supplied within section 5:

- Administering a variety of funds from Government provided in support of local businesses to assist in coping during the various stages of lockdown. This has included significant grant allocations for many businesses in the Retail, Hospitality and Leisure sector, among others.
- Administering the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Supporting a successful bid to the National Leisure Recovery Fund and award of £0.61M will significantly reduce the Council's financial liabilities to the service providers for our leisure contracts
- Tracking the financial impact of the pandemic on the council in order to submit monthly returns to Government highlighting the financial cost and preparing claims to Government covering lost revenue from sales fees, charges income when much lower than budgeted for.
- Acquiring and managing approx. £0.3M for personal protective equipment (PPE) usage.
- Responded sympathetically and helpfully for all those in genuine need and who were unable to pay sums owed to the Council, recognising the financial challenges arising from the current crisis and supporting people to manage their debts to the council.
- Advised on how to support many of our contractors and suppliers during difficult times, to ensure the council recognised their financial difficulties and ensure they were treated as sympathetically as possible.
- Responded quickly, decisively and effectively to the financial risks to the Council's golf provider as a result of the pandemic and to take control of the situation and the management of the course by negotiating exit arrangements and terminating the contract
- At the outset of the lockdown, aimed to pay our suppliers as soon as possible to aid their cashflow, in line with government guidance.

More generally, the Council ensured that all of our emergency response services including Housing Operations, Street Lighting and Highways continued to operate throughout the pandemic to ensure our customers, staff and the general public were kept safe and the Council's assets were safeguarded.

More detail on the Council's overall response to the pandemic crisis is included in the narrative below. The Council has coped with the pandemic whilst maintaining its delivery of good value services and has

NARRATIVE STATEMENT

done this whilst delivering overall spending less than allowed for within the agreed total budget as supplemented by various streams of Government financial support to help meet this unprecedented challenge.

The financial information below shows a sum of £8.6M being underspent for the 2020/21 financial year which has been taken to reserves and will help meet future council priorities as Southampton emerges from the lock down and supports our management of future risks.

I would like to express my sincere and genuine thanks for all staff in my Finance team who have made every effort to play their part in the Council's efforts to support our communities during the pandemic, against a background of much increased demand for our services and the difficulties presented by very challenging ways of working forced on to us by the pandemic.

2020/21 was year two of the Chartered Institute of Public Finance and Accountancy (CIPFA) new financial resilience index for local authorities. The index can be used as a tool to compare against other groupings of authorities but is only a starting point for analysis and in itself should not be relied on for conclusions. Some key points from the index were:

- SCC was considered to be at the lower end of the risk spectrum for measures for reserves in comparison to both unitaries and its 'nearest neighbours' comparator authorities (those with similar characteristics).
- However, for the Housing Revenue Account (HRA), the council was shown as being towards the higher end of risk. This was on the basis of comparing reserves with that held as at 31/03/2017, (a 33% reduction). The HRA reserve policy is to hold £2M and given no change recently to this balance and forward projections show this balance being maintained, it is not considered a major risk.
- On the relative proportion spent in Adult Social Care – which is led by demand and statutory requirements to meet client needs – Southampton was towards the higher end of risk. However, a key part of budget planning has been to recognise the financial stress faced by the authority with these services and ensure a robust budget to cater for rising demand pressure with a risk reserve specifically for social care provision set aside of around £7.4M.
- Southampton City Council has less reliance on fees and charges income and therefore less exposure to loss from the pandemic.

As well as giving the highest priority to the on-going response to the pandemic, Finance staff have also been working to improve our core financial systems. Work is progressing with the new financial management system (Business World) introduced in late 2019 to maximise the benefits from the system and its reporting capability as enhancing the supporting financial systems. A new method of recording, monitoring and tracking the council's revenue has been developed, called Income Manager, the full benefit of which will be felt in 2021/22 through much more automated recording of council income reducing the need for expensive manual intervention and reducing errors.

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

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 123.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2020/21 there were no material transactions that require this. Note 36 on page 105 provides further information.

NARRATIVE STATEMENT

The sections contained within the Narrative Statement are:

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

Looking ahead, the Authority faces very significant financial uncertainty which will make service and financial planning even more challenging than usual. The continued uncertainty over the on-going impact from the pandemic is a major factor, and how service spending and loss of income to the council will continue to affect the financial strain on the council. Coupled with that, the economic impact from the pandemic on local businesses as well as the local labour market will also feed into the funding the council can expect as its major funding streams are inextricably linked with the health of the local economy.

Government has supported all local authorities during the pandemic via a mixture of specific and general grants. In addition, there has been a scheme to compensate for a major element of lost income from sales fees and charges and for meeting a degree of the losses arising from reduced council tax and business rates. Uncertainty still remains over the medium to long term financial impact from Covid but any rapid economic 'bounce-back' this will help strengthen the council's finances.

More generally, Government has not pre-announced any future financial settlement for 2022/23, nor any Spending Review for the course of public finances as a whole for after 31 March 2022. Changes are still anticipated to arise for local authority funding from the overhaul of the business rate retention scheme which funds a major part of all local authority income as well as the Fair Funding Review, which is the mechanism that will be applied to balance the respective relative need to spend of each authority, based on various demographic and geographical factors. The long-awaited green paper on funding for Adult Social Care is also still to be published.

The financial outlook for the council was published at the time of the February 2021 Council meeting as part of the budget papers for the current financial year (2021/22). The Medium Term Financial Forecast contained within that report highlighted a budget shortfall of £22.5M for 2022/23, rising to £27.3M in 2023/24. These projections include assumptions about the effects of Covid-19 and will remain under constant review as the impact from the Government vaccine programme and the road map of emerging from the lock down status emerges. I am confident that with work already underway to close this financial gap that the authority can maintain good financial health going forward.

We will continue to err on the side of prudence with planning the finances of the Council, ensuring robust plans are in place to cater for future risks, including the potential for the pandemic to have a continuing impact on council finances. The emphasis will be on delivering efficient and effective services over the long term, based on long term thinking to ensure sustainable finances. We must deliver a realistic and balanced budget each year, but we know only so much can be done by reducing budgets and restructuring services. We will therefore continue the work to place an emphasis on developing our 'commercial' offer to both strengthen our ability to raise income and to become more self-reliant as the optimal way to meet our financial challenges in the longer term.

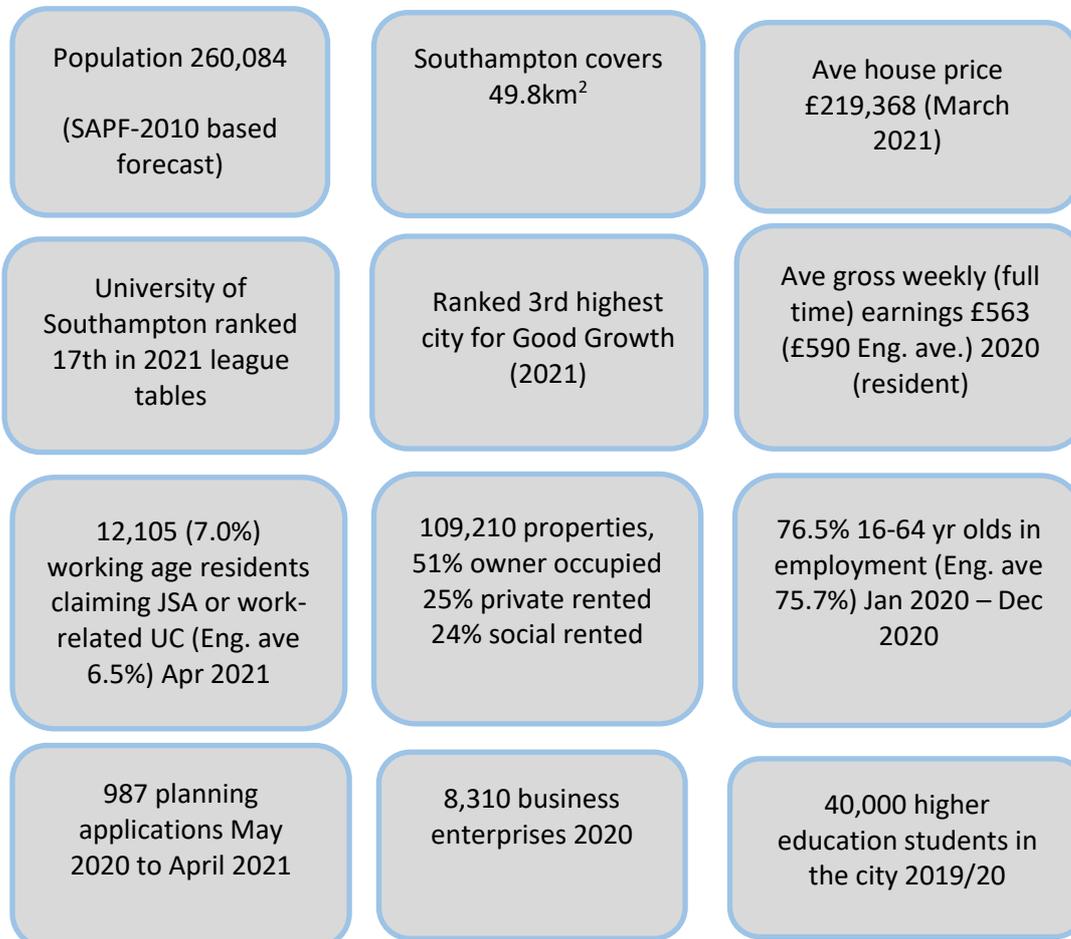
1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix.

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

Key Statistics



Sources: Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, and BRES.

Council related statistics

- We maintain over 416 miles of highways and 53 parks and over 147 other green spaces and 75 eco areas "managed for wildlife" which cover over 95 hectares
- We also maintain 97 play areas, 24 Multi use games areas, 6 Skateparks and 7 Tennis courts and a mini-golf course
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways
- We run 6 large libraries in Southampton and work in partnership with community organisations to support 5 more local libraries
- We provide 15,847 council houses
- We recycle, compost and reuse an estimated 26,300 tonnes of waste every year (data over the last 4 years 2016-20)

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- We provide long-term support for over 2,577 adults over 18
- We work with and support 76 schools in the city
- Nearly 7,000 children under 5 use our city's children's centres (over 14,000 visits per year) and we look after approximately 490 children who are in our care
- Over 1,750 Commercial Waste Customers and approx. 16,000 Garden Waste Customers
- Empty around 130,000 bins from households every week
- Service and maintain nearly 500 vehicles and over 500 pieces of plant and equipment
- We currently have 2,408 people which City Telecare support with telecare devices
- We have about 3,500 supported housing properties which have pull cords available
- The 60+ support service has provided Housing Related Support to over 474 clients during 2020/21 (not all long term – the aim is short term support)
- 1,362 monthly support plans were delivered by Housing Support Workers supporting older vulnerable residents
- We have 389 Extra Care properties in the city
- 3 x Green Flag awards for St. James Park, Riverside Park and the 5 Central Parks (as a collective award)

Southampton City Strategy 2020-25

The Council's Corporate Plan 2020-2025 published in February 2020 sought "to provide for a city that is greener, fairer and healthier; a city of culture that is accessible to everyone. We will continue to develop Southampton as a modern, vibrant and sustainable city to live, work and visit. The city's infrastructure needs to support the economy by reducing congestion, overcoming barriers to jobs and opportunities, improving the environment, and building an infrastructure resilient to change.

Underpinning this is work to support us as a sustainable council, increasing our commercial opportunities to generate income, and ensuring we are both solid in our financial position and flexible enough to identify important trends and respond to a changing environment.

The Council's vision is that Southampton is a City of opportunity, with strategic goals being "Greener", "Fairer", "Healthier". These goals will be delivered through initiatives within the following themes below":



Our organisational values reflect the importance we place on behaviours, and the way we engage with customers, partners and colleagues.



Given the changes to the environment, including local political control, a revised corporate plan will be developed for July 2021.

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2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

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

Political Structure

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The expected May 2020 local elections were delayed due to the Covid pandemic, leaving the political structure during 2020/21 as follows:

Labour 30
Conservative 18

Council Executive Management Board

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2020/21 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2020/21.

Chief Executive – ***Sandy Hopkins***

Executive Director – Business Services (Deputy Chief Executive) – ***Mike Harris***

Executive Director – Wellbeing (Children and Learning) – ***Robert Henderson***

Executive Director – Communities, Homes and Culture - ***Mary D'Arcy***

Executive Director – Place - ***Kate Martin***

Executive Director – Wellbeing (Health and Adults) – ***Grainne Siggins***

Executive Director - Finance & Commercialisation & S151 Officer – ***John Harrison***

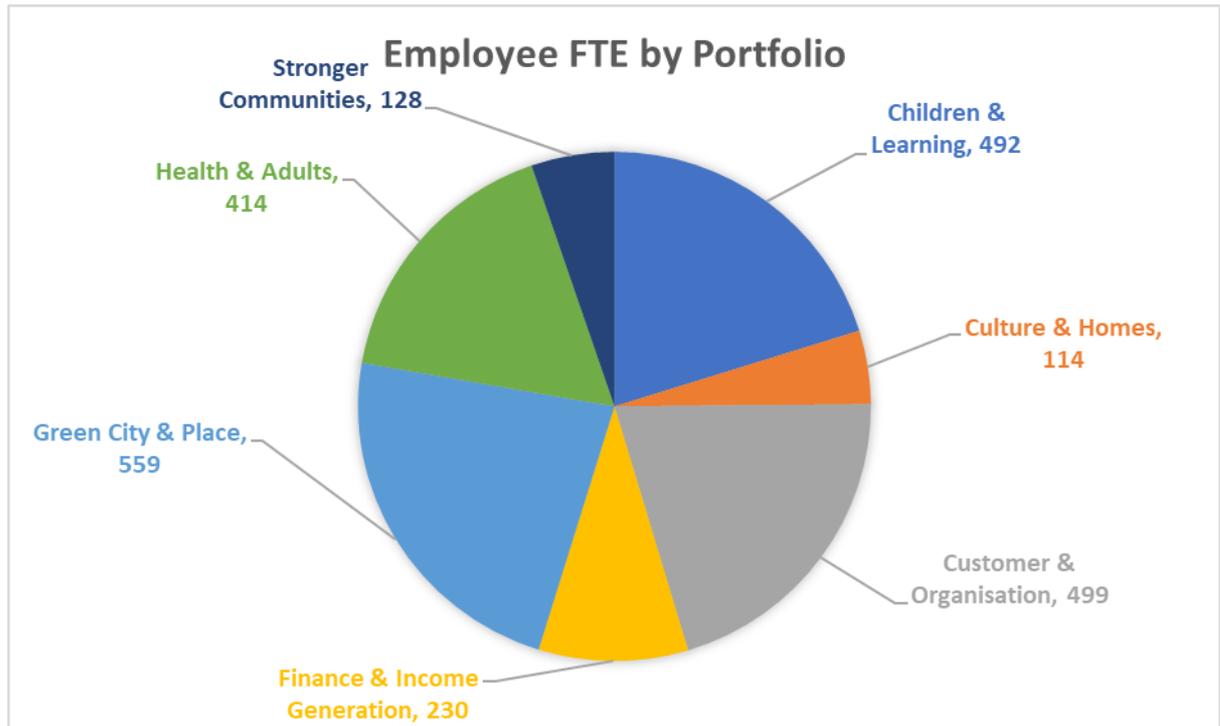
The team works together to set out the priorities and themes contained within the Southampton City Council Strategy.

Staffing

The Council employs circa 2,436 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

The following chart shows how these support the different Council services:

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In line with the Government guidance in relation to Covid-19, the Council adopted a policy of advising employees to work from home, where possible, from March 2020. This way of working is already within the Council's flexible working policies and an established way of working for a number of staff, albeit not to the level that was experienced in March 2020.

The Council's Performance

The measures used to monitor and report on the authority's agreed corporate plan are given below, showing the performance taken from quarter 2 and 4 during the finance year, as well as the direction of travel and any comment as needed.

Communities, culture & homes	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Percentage of people reporting feeling safe in the city during the day	▲	2018/19	81.60%		85%	Improving	City Survey is carried out every two years
Percentage of people reporting feeling safe in the city at night	▲	2018/19	39.60%		35%	Worsening	
Percentage of people reporting feeling a sense of belonging to the local area (very or fairly strongly)	▲	2017/18	72.80%		77%	Improving	
Number of new build affordable housing (including	▲	2019/20	51	Progressing in line with plan		Stable	274 homes under

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Green City							
Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
acquisitions) owned by Local Authority							construction. 726 in the planning stages.
Number of assessments made where homelessness was prevented or relieved (experimental)	▲	Q4 20/21	297	323	333	Improving	A total of 1,226 assessments made in year
Metric tonnes of CO2e (new definition)	▼	New measure and baseline in development to be reported 2021/22					
Metric tonnes of CO2e (old definition)	▼	2018/19	14647.02 tonnes	13544.41 tonnes (2019/20)		Improving	
Recorded levels of nitrogen dioxide in the city's Air Quality Management Areas (ug/m3) (calendar year)	▼	2018	34.53	33.50 (2019)		Improving	
The number of weekday cycles on main cycle routes (where cycle counters are in place) cumulative	▲	2019/20	27,572	18,736	29,588	Improving	
The number of passengers using public transport (cumulative)	▲	2019/20	20,184,134	3,042,618	7,327,000	Worsening	Impact of the three lockdowns on bus travel has reduced patronage by over 60% over 2020/21.
Increasing the number of trees planted	▲	Measure and baseline to be reported from 2021					
Number of wildflower meadows planted	▲	2019/20	8	Planting started Nov 2020	13	Improving	6 additional meadows planted this year
Percentage of household waste sent for recycling	▲	2019/20	29.22%	28.86%	25.32%	Worsening	
Place shaping							
Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Number of new homes built (housing completions)	▲	2019/20	460	Annual measure			Data available end of June 2021
Percentage of year 12 and 13 in education, employment and training with accredited study	▲	2018/19	89.90%	88.10%	89.8%	Improving	
Reduced journey times (average journey time inbound across 8 main routes in the city)	▼	Nov 2019	14.03mins	Annual measure	11.34 mins	Improving	Data taken from March 2021 weekday peak

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Reduced journey times (average journey time outbound across 8 main routes in the city)	▼	Nov 2019	13.16mins	Annual measure	11.25 mins	Improving	times
Apprenticeship starts (18 64 per 1,000)	▲	2018/19	9.74	5.02 (at 6 months)		Stable	There is a delay with the publication of government apprenticeship data
Increase in economic growth (Gross value added per head)	▲	2018	£31,023	£30,865 (2019 provisional)		Stable	The provisional figure for 2019 shows a slight drop from the 2018 baseline
Wellbeing	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Male gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016 18	6.4 years	7.9 years (2017 2019)	8.7 years (2018 2020)	Worsening	
Female gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016 18	4.1 years	3.6 years (2017 2019)	4.1 years (2018 2020)	Stable	
Proportion of city pupils known to be eligible for Free School Meals (primary)	▼	2018/19	21.90%	24.60%	31.4%	Worsening	
Proportion of city pupils known to be eligible for Free School Meals (Secondary)	▼	2018/19	20.40%	23.60%	28.5%	Worsening	
Percentage of people with eligible needs supported to live independently	▲	2019/20	76.66%	79.61%	79.10%	Stable	
Number of Looked After Children (per 10,000)	▼	2019/20	96	95	97	Stable	
Percentage of care leavers in touch and in suitable accommodation	▲	2019/20	84.10%	85.06%	82.35%	Worsening	
Successful, sustainable business	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Percentage customers very or fairly satisfied with the way Southampton City Council runs things	▲	2017/18	49.80%	City survey due Q4 date	68%	Improving	This is an 18% improvement from 2018.
Employee engagement scores	▲	2018	59/100	Annual measure	70/100	Improving	Data from the latest staff survey

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Percentage council spend with local suppliers	▲	2019/20	41.11%	41.16%	30.66%	Worsening	The profile of expenditure with local suppliers changed in Quarter 4 because of COVID 19 related matters and programme changes
Percentage of staff working flexibly	▲	2019/20	5%	81%	88%	Improving	Small improvement. The focus was on consolidating existing users, due to business need. Not all staff are able to work remotely
Total number of apprentices developing a career within SCC (existing employees)	▲	2019/20	94	113	122	Improving	
Number of days lost per employee to sickness absence	▼	2019/20	9.37 days	8.58 days	8.47 days	Improving	

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2020/21 was agreed at full council when it met on 26 February 2020 and a balanced budget was set that included around £7.6M of planned savings for the year. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

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

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

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General Fund Revenue Account: Outturn Position 2020/21	Budget 2020/21	Portfolio Outturn 2020/21	Outturn Variance 2020/21	
	£M	£M	£M	
Portfolios				
Children & Learning	46.96	57.24	10.29	A
Culture & Homes	8.79	10.96	2.18	A
Customer & Organisation	27.12	27.32	0.20	A
Finance & Income Generation	0.75	7.10	6.35	A
Green City & Place	23.25	30.95	7.70	A
Health & Adults	68.06	74.41	6.35	A
Stronger Communities	3.37	3.71	0.35	A
Sub total for Portfolios	178.29	211.69	33.41	A
Levies & Contributions	0.09	0.09	(0.00)	F
Capital Asset Management	6.02	5.38	(0.64)	F
Net Housing Benefit Payments	0.00	(0.11)	(0.11)	F
Other Expenditure & Income	6.80	(11.10)	(17.90)	F
Net Council Expenditure	191.19	205.95	14.76	A
Financed By:				
Council Tax	(102.28)	(102.28)	0.00	A
Business Rates	(54.57)	(54.57)	(0.00)	F
Non-Specific Government Grants & Other Funding	(34.34)	(57.72)	(23.38)	F
Total Financing	(191.19)	(214.58)	(23.38)	F
Transfer to Reserves - Year End Surplus		8.63	8.63	
(Surplus)/Deficit	0.00	0.00	(0.00)	

Numbers are rounded

Since the Council set its budget in February 2020 the financial pressure the council faces and future outlook has inevitably been fundamentally impacted by the Covid-19 pandemic, its effect on demand for council services and its wider economic impact.

The total overspend at Portfolio level amounted to £33.4M. Much of the overspend related to the impact felt from the pandemic, with the combined effects of additional pressure to spend, loss of income and delays to savings plans producing a total adverse pressure of £28.3M.

The most significant overspend related to the Children's and Learning Portfolio (£10.3M adverse), which was a product of a rise in the numbers and cost of looked after children, and additional expenditure relating to increased numbers of temporary social workers to deal with this increase and to cover vacancies.

The favourable variance for Other Expenditure & Income reflects the planned use of corporate funds and reserves to meet budget pressures and includes £6.9M of government support for COVID-19 which was carried forward from 2019/20. The favourable variance for non-specific grant (£23.4M) is mainly due to the receipt of COVID-19 LA Support Grant (tranches 2 – 4) (£15.5M) plus Fees and Charges Compensation (£7.4M).

The overall outturn for the council was a contribution to general reserves of £8.6M.

On-going significant pressure has been experienced in relation to both Adult Social Care and Children's Social Care services due in part to increasing demand and complexity of required services. This situation was made more severe during 2020/21 due to the pandemic, which not only impacted further on demand pressures but also meant savings plans in these areas were delayed as attention has focused on combating the impact of the pandemic.

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As part of setting the budget for 2020/21 the circumstances and risks around service spending pressures were recognised, with further funding provided and a reserve set up to cater for all forms of social care demand, which has been accessed during 2020/21 to help offset demand pressure for Children's Social Care but is also available going forward with an uncommitted balance of £7.4M as at 1 April 2021.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 28 and further in Note 8.

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

	Budget 2020/21	Portfolio Outturn 2020/21	Outturn Variance 2020/21	
	£M	£M	£M	
Salaries & Wages	118.76	124.36	5.61	A
Premises Costs	13.00	10.62	(2.38)	F
Transportation Costs	6.65	6.66	0.01	A
Supplies & Services	99.68	173.65	73.96	A
Internal Charges	16.32	19.90	3.58	A
Other Direct Costs	220.44	247.68	27.25	A
Total Expenditure	474.85	582.87	108.02	A
Internal Income	(39.84)	(39.70)	0.14	A
Fees, Charges & Rents	(61.38)	(45.49)	15.89	A
Grants / Contributions	(199.19)	(285.98)	(86.80)	F
Total Net Expenditure	174.44	211.69	37.25	A

Numbers are rounded

This analysis excludes HRA and Housing Benefit areas when compared to the EFA.

COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is reflected in the following years' Council Tax calculations. The Business Rates element of the Collection Fund operates in a broadly similar way. The Collection Fund as a whole has a deficit of £51.9M at 31 March 2021. Government grant funding has been received in 2020/21 towards the deficit, however the deficit is being recovered from the Council and other preceptors in future years. Under recommended accounting practice the £25.8M of Collection Fund support received by the Council has been transferred to the Revenue Grant Reserve to be used in 2021/22.

NARRATIVE STATEMENT

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 111 to 115.

HRA Outturn Position 2020/21

The table below shows the HRA outturn position.

Housing Revenue Account: Outturn Position 2020/21	Budget 2020/21	Outturn 2020/21	Outturn Variance 2020/21
	£M	£M	£M
<u>EXPENDITURE</u>			
Responsive Repairs	13.27	15.29	2.03 A
Housing Investment	5.19	3.80	(1.39) F
Total Repairs	18.45	19.09	0.64 A
Rents Payable	0.10	0.15	0.05 A
Debt Management	0.09	0.08	(0.00) F
Supervision & Management	22.52	22.86	0.34 A
Interest Repayments	5.09	4.78	(0.32) F
Principal Repayments	0.00	0.00	0.00
Depreciation	20.47	21.55	1.08 A
Capital Financing	8.89	7.19	(1.70) F
TOTAL EXPENDITURE	75.61	75.69	0.09 A
<u>INCOME</u>			
Dwelling Rents	70.24	70.48	(0.24) F
Other Rents	1.23	1.20	0.02 A
Total Rental Income	71.47	71.69	(0.22) F
Service Charge Income	3.26	2.47	0.78 A
Leaseholder Service Charges	0.88	1.54	(0.66) F
Interest Received	0.01	0.00	0.01 A
TOTAL INCOME	75.61	75.69	(0.09) F
SURPLUS/(DEFICIT) FOR YEAR	0.00	0.00	(0.00)
<u>BALANCES</u>			
Working Balance B/Fwd	2.00	2.00	0.00
Surplus/(deficit) for year	(0.00)	0.00	0.00
WORKING BALANCE C/FWD	2.00	2.00	0.00

Numbers are rounded

NARRATIVE STATEMENT

CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £130.88M in total for the General Fund and HRA. Final capital spend for the year was £84.17M, this was £46.72M less than the budget, including slippage/re-phasing of £40.14M. This will be reflected in the post outturn update of the overall programme.

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

Service	2020/21 Budget £M	2020/21 Expenditure £M	Variance £M
Children & Learning	17.24	14.16	3.08 F
Culture & Homes	1.03	0.07	0.97 F
Customer & Organisation	6.20	5.06	1.15 F
Finance & Income Generation	1.27	1.26	0.01 F
Green City & Place	55.76	27.91	27.86 F
Health & Adults	0.15	0.13	0.02 F
Stronger Communities	1.87	1.61	0.25 F
Total General Fund Programme	83.53	50.20	33.33 F
Housing Revenue Account	47.36	33.97	13.39 F
Total Capital Programme	130.88	84.17	46.72 F

Numbers are rounded

The final spend for the year was £46.72M lower than the budget. Of this, £40.14M was due to slippage/re-phasing on schemes, which will be spent in 2021/22 predominantly on the following schemes:

Integrated Transport	£18.75M
Other Environment	£3.74M
Highways	£2.26M
Townhill Park Infrastructure	£0.54M
Secondary Expansion	£1.00M
School Capital Maintenance	£0.76M
HRA - Making Homes Energy Efficient	£3.63M
HRA - Regeneration & New Build	£3.52M
Transformation Capital Programme	£0.98M

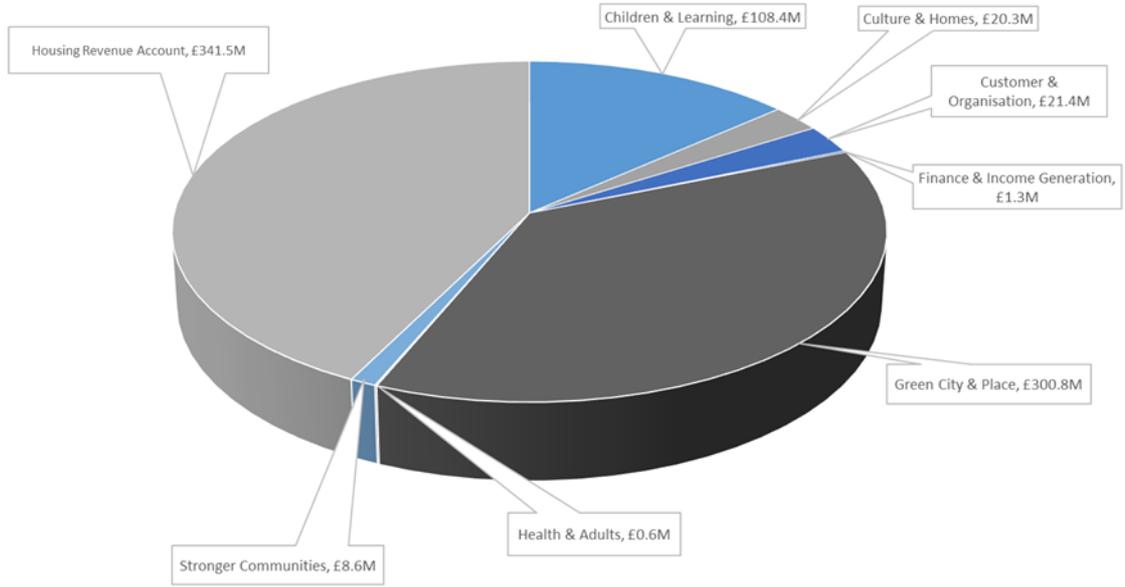
Numbers are rounded

5 Year Capital Programme

The current approved 5-year capital programme which totals £802.91M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.

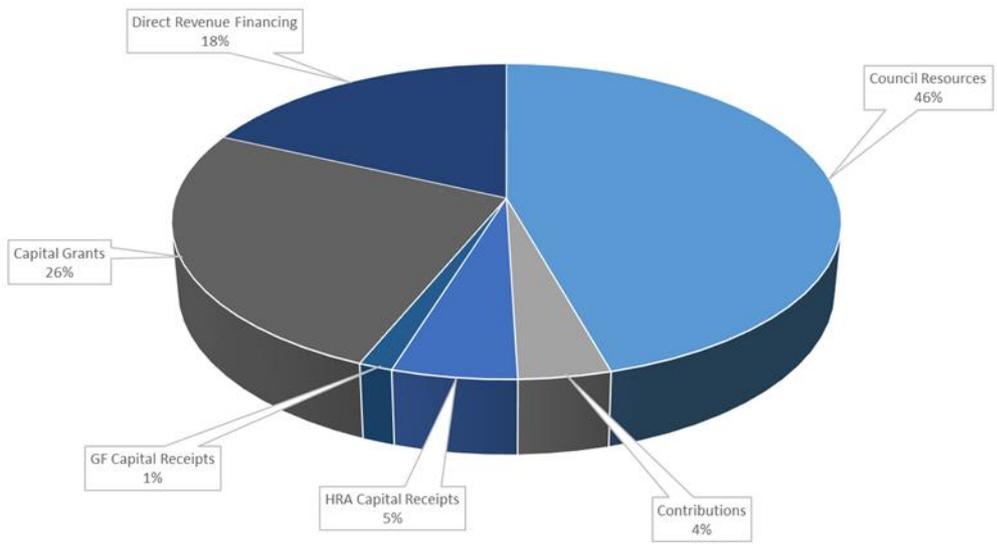
NARRATIVE STATEMENT

CAPITAL EXPENDITURE - 5 YEAR PROGRAMME 2020/21 - 2024/25



Funded by:

CAPITAL FUNDING - 5 YEAR PROGRAMME 2020/21 - 2024/25



NARRATIVE STATEMENT

TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director for Finance, Commercialisation & S151 Officer to make decisions on the management of the Council's debt and investment of surplus funds.

The current strategy, as outlined in the Council's agreed strategy, is that as we have an increasing borrowing requirement our overall intention is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund has generated returns of 4.25% against our original investment of £27M. There was a further fall in the estimated property value, when compared to the original investment value, of £0.19M (loss of £0.53M in 2019/20) The fair value for 2020/21 was £26.28M against the original £27M investment an estimated loss of £0.72M.

RESERVES AND BALANCES

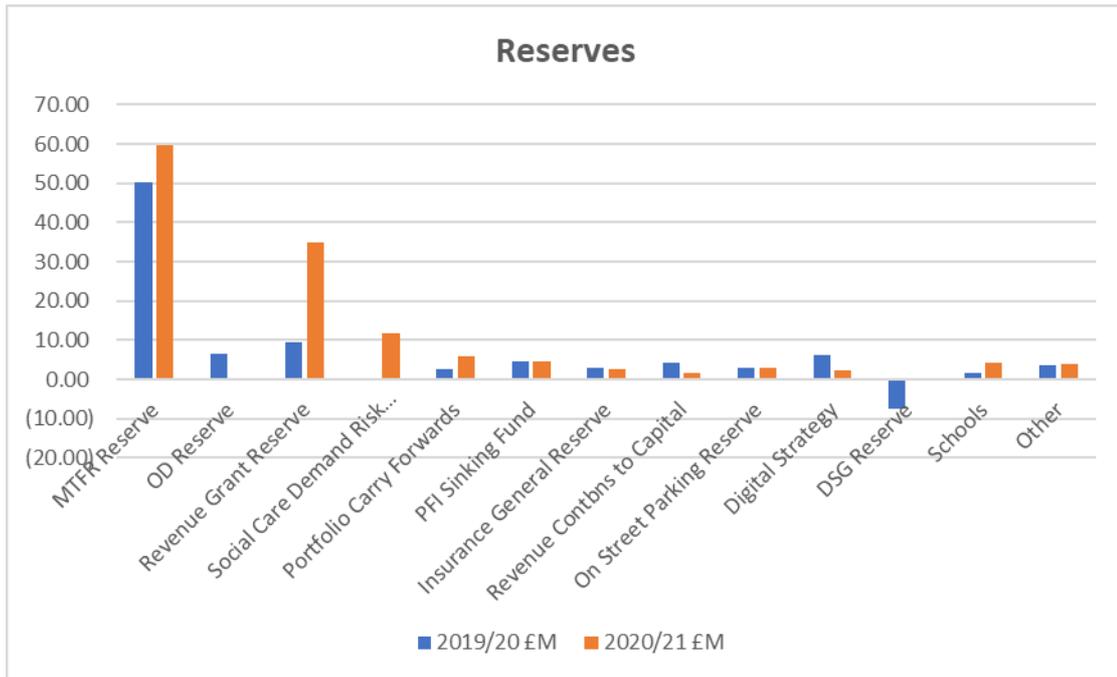
The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

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

In light of the increasing level of risk and uncertainty identified with the MTFF and the increased probability of financial resources being required to support its delivery, it continues to be important that the Council maintains strong levels of reserves. Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2021. The necessity for a robust level of reserves is reinforced by the financial pressures commencing in late 2019/20 and through all 2020/21 arising from the COVID-19 situation. Even though Government grant support has been made available to assist with the additional costs and loss of income, there is an expectation from Government that some degree of financial impact will be shouldered by local councils, and no financial support is available from Government for the impact the pandemic has had on setting back savings plans.

The graph below highlights the changes in the value of reserves between 31 March 2020 and 31 March 2021. It is important to note that the Revenue Grant Reserve has increased significantly, but this mainly reflects timing differences in accounting for business rates. The Government introduced arrangements to provide 100 per cent discounts to the business rates payable by the retail and hospitality sectors which were particularly badly hit by the pandemic's effects. In order that local government funding did not suffer as a consequence, the loss of revenue was fully recompensed by the government in 2020/21. The Council received £24.7M of additional grant for business rates foregone. However, the accounting arrangements for business rates mean that the shortfall experienced in 2020/21 will not be charged to the General Fund until 2021/22 and hence the additional grant has been added to reserves for this purpose. This sum is therefore committed in 2021/22 to make good the shortfall and does not represent additional resources available to the Council to spend on service provision.

NARRATIVE STATEMENT



The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2021/22 and the required level of minimum balance, as determined by assessing the level of risk the Council faces, is considered to be £10M (the existing level).

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way. The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

Risk Management Policy - This provides an overview of the operating framework, arrangements and responsibilities for managing risk and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council's intranet, is subject to annual review and update as necessary.

Strategic Risk Register - The Strategic Risk Register is a key document in terms of identifying, assessing and managing the council's key strategic risks. The Strategic Risk Register is developed and managed in consultation with the Executive Management Board (Chief Executive and Executive Directors). The Strategic Risk Register is updated on a quarterly basis with the end of quarter position reported to and reviewed by the Executive Management Board. The identified 'strategic risks' are subject to change as new risks may emerge whilst others may become less significant as mitigating actions are implemented, or external factors change the nature of the risk.

The emergence of the Coronavirus pandemic has had a significant impact on the organisation in terms of new and emerging risks. In response, a separate Covid-19 Risk Register was developed and between May and September 2020 was subject to fortnightly review and reporting to the Executive Management Board - which reflected the rapidly changing nature of the risk and the responses required. In response to the move from the 'emergency response' phase, to 'stabilisation' and finally to 'recovery' phase the risks have now been subsumed into either the Strategic Risk Register or the 'Outbreak Control Plan Risk Log'. With the latter being managed by via the Health Protection Board.

NARRATIVE STATEMENT

Project and Programme Risk Management -The need to identify and manage risk runs throughout the project and programme management process from initiation to implementation. Risk management is key component of project governance with individual risk logs developed in order to ensure that project sponsors/boards are aware of and understand the key risks associated with the delivery of the project.

Decision Taking: Corporate Report Template - The council's standard corporate report template includes a 'Risk Management Implications' section that requires a report author to consider and provide the 'decision taker' with relevant and proportionate information regarding the risks associated with the project or initiative that is the subject of the report.

4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2021. It details both revenue and capital elements for both the General Fund and the HRA.

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

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

Core Financial Statements:	Page
Responsibilities for the Statement of Accounts	27
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Expenditure and Funding Analysis (Not a Core Financial Statement)	28
The purpose of this statement is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
Comprehensive Income and Expenditure Statement (CIES)	29
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
Movement in Reserves Statement (MiRS)	30
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special	

NARRATIVE STATEMENT

dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.

Balance Sheet

The Balance Sheet shows the value as at the 31 March 2021 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. 31

Cash Flow Statement

This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as; 32

- Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services
- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Financial Statements (including Accounting Policies) 33 – 110

Housing Revenue Account (HRA) 111 - 115

This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.

Collection Fund 116 - 118

This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.

Glossary 119 - 122

Annual Governance Statement 123 - 136

Auditor's Report and Certificate 137

5. ISSUES AND DEVELOPMENTS

COVID-19 Pandemic

Southampton City Council has been playing a critical role in helping to lead the local response to COVID-19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF) and others. The aim has been to save lives, protect the NHS, ensure our residents are protected, help support those residents who need to be shielded as part of particularly vulnerable groups in the community and that crucial public services continue to operate.

The Council responded quickly following the emergency announcement and subsequent restrictions imposed on 23 March 2020 and during 2020/21 has operated on an emergency footing, via the established procedure of Gold and Silver Command structures. Staff have been identified and re-deployed into emergency response activities.

The financial implications of COVID-19 were captured and reported regularly to the Ministry for Housing, Communities and Local Government (MHCLG) during the year.

The Council has received £22.9M of COVID-19 related general funding, spread over 4 tranches (of which £0.5M was applied in 2019/20). Furthermore, it is expected that the Council will receive £7.4M in support from Government through its compensation scheme for Sales Fees and Charges lost income. However, this only provides for 75% compensation, after deduction of a 5% allowance from budgets for volatility and

NARRATIVE STATEMENT

it also does not provide any compensation for losses connected with property rents. No COVID-19 related government support has been provided for the Housing Revenue Account.

Further funding has been received from Government, in relation to financial support for specific services and measures, and these have been reported to Cabinet on a quarterly basis.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. All COVID related adverse financial impacts have been managed, as they would with any other challenge, with sound financial management and stewardship of resources.

Part of the picture which provides for financial resilience are corporate sums which provide cover for all manner of risks, which include a general fund balance of £10.1M and a Medium Term Financial Risk Reserve so far not allocated of £36.5M.

The contingency within the 2021/22 budget was set at approx. £9.5M per the February budget papers agreed by Council. The HRA balance at 31 March 2021 was £2M and this remains available to support any additional costs specific to the Housing Revenue Account.

The Council has been either directly involved, or worked in partnership, to support many different initiatives designed to protect our communities, local business and vulnerable people to help overcome the pandemic crisis. During 2020/21, these measures included:

- Spent approx. £3M (grant funded) in 2020/21 on combating Covid via outbreak control and management measures.
- A 10% goodwill grant payment made to Adult Social Care providers (£2.1M) to ensure the market can cope with the number of clients needing support.
- Of the grants received from Government, £107.9M has been in the form of funding to administer and disperse to third parties, mainly including businesses. Both business support grants and business rates reliefs have been dispersed since March 2020. Business rate reliefs alone provided over 1,926 businesses with awards totalling £52.2M under the expanded retail, hospitality, non-essential retail and nursery schemes.
- Administered the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Suspended recovery action across Council services during April and May for those unable to pay sums owed to the Council, in recognition of the financial challenges arising from the current crisis.
- Supported the homeless and rough sleepers to self-isolate in local accommodation.
- Administered around £2M from Government to help care homes implement and enhance their infection control measures.
- Funding additional staffing costs of around £2.2M, mainly for staff in both Adults and Children's Social Care as they responded to the crisis and support vulnerable clients.
- Approx. £0.3M for supplies acquired for personal protective equipment (PPE) usage, which ensured we reacted quickly to meet demand in periods of significant supply challenges to ensure that SCC's staff were able to access PPE throughout the pandemic period to ensure that our customers, staff and the public were kept as safe as possible.
- Ensuring the availability of emergency additional mortuary provision, provided jointly with other Hampshire authorities, as well as extra coroners costs, at around £0.5M.
- Operating the emergency food hub, initially located at the Guildhall then to St Mary's.
- Provided additional support for COVID safe Home to School Transport at a net extra cost of £0.4M.
- Implemented a local Test and Trace Service. Between 3 December 2020 and 20 April 2021, the service handled 1538 cases in total, approximately 14.51% of all positive cases in Southampton. The

NARRATIVE STATEMENT

service successfully contacted 850 of these index cases and traced their close contacts. This service is anticipated to continue until June 2022, helping the city overcome the pandemic.

- Taking a positive and pragmatic stance on the opportunity provided by the pandemic to deliver the highways capital programme early during lockdown periods in order to minimise disruption to road users, support economic recovery and aid efficient expenditure control
- Adjusted the Social Value and Green City Procurement Policy Framework to support economic and local recovery through procurement activities.

During the pandemic, the Government has sought to assist cash flow of all local councils by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme).

The level of uncertainty about the impact of the crisis and its duration, coupled with an uncertain funding position for the ongoing financial impact faced, means the financial position in future years is unclear. The Council's Medium Term Financial Forecast will be regularly reviewed, and as part of the February 2021 budget report to Council highlighted an anticipated shortfall of around £22.5M for 2022/23. Work has started early to address this shortfall, however, the Council has a good degree of financial strength, as evidenced by the recent CIPFA resilience index.

The work needed to support the recovery from the public health crisis and its consequential economic effects are being addressed in tandem with the Local Resilience Forum and through partnership working with local authorities across Hampshire.

Transforming Cities Fund (TCF)

As part of the 2020 National Budget, the Chancellor announced in March 2020 the outcome of the Industrial Strategy's Transforming Cities Fund (TCF). Southampton City Council and Hampshire County Council submitted a joint bid for the Southampton City Region, which was awarded £57M of Government funding towards the project and covers the three years to March 2023.

There are three different types of schemes included in the grant award – Cycling, Active Travel Zones/Mobility Hubs and Rapid Bus/Intelligent Transport systems. In addition to these, there are a number of city centre schemes which have been grouped separately due to their overarching nature, containing all of the above elements. These will be delivered in conjunction with and complementing the other schemes

Significant progress has been made in 2020/21 and projects completed during the year include the Bevios Valley and West Quay Road cycle schemes, along with bus lane improvements on Mountbatten Way. Regular progress updates and more information on current and future schemes can be found at <https://transport.southampton.gov.uk/transforming-cities/>.

IT Investment Plan

The Council agreed a five-year investment plan for IT and Digital services in November 2020 that has been created to ensure that work started through the Desktop Refresh and Smart Ways of Working projects is completed and that there is a clear plan for ongoing investment in IT and Technology through to 2025.

The Investment Plan will enable a continuation of service improvements and ensure that high-quality, effective IT services can be delivered in future years. It also enables front-line services to plan properly for the service improvements they need that depend on modern IT infrastructure and systems.

To support this plan, a total of £8.5M was added to the capital programme plus a further £4.1M of revenue costs have been agreed and allowed for in the Council's Medium Term Financial Forecast.

The Investment Plan has been developed in conjunction with all services across the council and therefore represents the technology requirements to allow ongoing development of service area applications and digital solutions for the Housing, Council Tax, Social Care, Revenues and Benefits services, as well as addressing underlying IT infrastructure requirements. The Investment Plan represents a significant investment in IT and Digital services but one that will enable on-going significant improvements in service

NARRATIVE STATEMENT

delivery. Adopting and exploiting new technologies such as robotics, automation and AI will ensure that Southampton remains at the forefront of technology and digital services.

Potters Court

Work on the Potters Court Development was completed during 2020/21. With 83 one and two-bedroom flats, Potters Court is the largest housing with care scheme in Southampton, offering independent living for older people with care and support needs. Potters Court is designed for older adults (either single people or couples) who have a housing need, as well as care and support needs. The project is HRA funded (charging affordable rents) and enables greater independence for residents through modern living with support (e.g. telecare and wheelchair accessibility) for residents.

The development will also contain a restaurant and health and wellbeing suite, which will be open to the local community to enjoy, plus communal lounges, gardens, laundry and IT facilities.

Housing with care provides residents with the privacy and independence of their own flat, plus the reassurance of onsite support and 24-hour care. The care and support packages are tailored to how much or how little is required; residents with significant care needs, including those with cognitive impairments such as dementia, can be supported, as well as those who are more independent but would still benefit from the supportive environment the complex offers. Staff are available to check on people's wellbeing and help in emergencies (such as falls or unexpected illness) throughout the day and night, offering peace of mind.

City of Culture

During 2020/21, at full Council there was unanimous support to agree the commitment and necessary funding to bid for City of Culture status for 2025. This has the capacity to be a major development, raising the profile of the city and giving long term economic benefits; opportunities for young people; regional, national and international profile raising for the City as well as helping to address the social needs of our city, using culture as a catalyst to bring the City together and drive change.

Itchen Bridge

A contactless payment option was introduced for Itchen Bridge during 2020/21. New card readers were installed at the payment booths to provide convenient option for people making the crossing.

Home working/online meetings

The Council adapted its processes and IT set up to quickly facilitate staff to comply with the Government expectation of home working where you can. During 2020/21, the Council was able to support an additional 1800 number of staff work from home regularly. Capacity of the remote connection was more than quadrupled and new technology implemented to make it more reliable and increase the range of services available outside of the office. Roll out of office 365 and use of teams was accelerated to support this enhanced capacity, which was a part of existing plans, but which had to be much more quickly implemented than previously anticipated. 3,500 staff are now connected via the Microsoft 365/Teams platforms across a range of services including front line workers.

Starboard Way (Oaklands Development)

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes, at an expected cost of £17.4M. Construction has therefore been underway during 2020/21.

Formerly known as Oaklands, Starboard Way is a development of 103 new council-owned homes off Fairisle Road in Lordshill featuring a mixture of council-rented and shared-ownership homes, while a proportion will also be made available to residents with care needs.

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Starboard Way is set to complement the surrounding area and offer a contemporary street scene by including:

- Semi-detached pairs, short terraces and small blocks of two and three-storey flats
- A mixture of roof designs
- A range of energy-efficient features, such as solar panels
- Areas of formal and informal play across the site
- A cycle path will be rerouted through the development
- Electric charging points in car parking areas, plus improved electrical infrastructure (including substation upgrade) for houses to have the option for these to be installed at a later date

Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2020/21. A change in legislation now requires the deficit on the Dedicated Schools Grant to be held in an unusable reserve (see note 22(f)). The implementation of International Financial Reporting Standard (IFRS) 16 *Leases*, previously expected to be applied from 2020/21, has been deferred for a further year until 2022/23.

STATEMENT OF RESPONSIBILITIES

1. The Council's Responsibilities

The Council is required to:

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

2. The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts the S151 Officer has:

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

The S151 Officer has also:

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

3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2021 and of its income and expenditure for the year ended 31 March 2021.

Signed **J Harrison** _____ Date 14/06/2021
Section 151 Officer

4. Approval of the Accounts

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

Signed **D Fuller** _____ Date
Chair, Governance Committee

THE FINANCIAL STATEMENTS

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 54.

<u>2019/20 Restated</u>				2020/21		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
55,991	21,427	77,418	Children & Learning	57,244	11,476	68,720
8,087	3,159	11,246	Culture & Homes	10,962	2,724	13,686
26,906	6,543	33,449	Customer & Organisation	27,323	3,051	30,374
8,698	1,839	10,537	Finance & Income Generation	7,096	5,461	12,557
22,499	5,108	27,607	Green City & Place	30,948	7,242	38,190
62,255	3,323	65,578	Health & Adults	74,408	(4,750)	69,658
(15,508)	(30)	(15,538)	Housing Revenue Account (HRA)	(12,970)	3,394	(9,576)
1,821	1,266	3,087	Stronger Communities	3,714	712	4,426
(642)	(580)	(1,222)	Housing Benefit	(113)	205	92
0	1,482	1,482	Other Income & Expenditure	0	(2,113)	(2,113)
			Other items of expenditure and income:			
0	(3,721)	(3,721)	Correction for Housing Improvement Loans	0	0	0
0	13,979	13,979	Revaluation & Impairment of General Fund Assets	0	3,493	3,493
0	18,383	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	(42,021)	(42,021)
170,107	72,178	242,285	Cost of Services	198,612	(11,126)	187,486
(169,204)	(41,231)	(210,435)	Other Income & Expenditure	(245,398)	42,561	(202,837)
903	30,947	31,850	(Surplus)/Deficit	(46,786)	31,435	(15,351)
(98,732)			Opening General Fund Balance	(97,829)		
(2,000)			Opening HRA Balance	(2,000)		
903			Less/Plus Deficit/(Surplus) on General Fund	(46,786)		
0			Less/Plus Deficit/(Surplus) on HRA	0		
(97,829)			Closing General Fund Balance	(144,615)		
(2,000)			Closing HRA Balance	(2,000)		
(99,829)			Closing General Fund & HRA Balance	(146,615)		

THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

2019/20 Restated				2020/21			
Expenditure	Income	Net		Expenditure	Income	Net	
£000	£000	£000		Notes	£000	£000	
234,993	(157,575)	77,418	Children & Learning		240,322	(171,602)	68,720
16,941	(5,695)	11,246	Culture & Homes		18,132	(4,446)	13,686
37,048	(3,599)	33,449	Customer & Organisation		33,976	(3,602)	30,374
18,061	(7,524)	10,537	Finance & Income Generation		24,131	(11,574)	12,557
54,224	(26,617)	27,607	Green City & Place		57,230	(19,040)	38,190
116,258	(50,680)	65,578	Health & Adults		130,069	(60,411)	69,658
63,484	(79,022)	(15,538)	Housing Revenue Account (HRA)		66,999	(76,575)	(9,576)
11,070	(7,983)	3,087	Stronger Communities		12,180	(7,754)	4,426
71,441	(72,663)	(1,222)	Housing Benefit		71,142	(71,050)	92
1,730	(248)	1,482	Other Income & Expenditure		512	(2,625)	(2,113)
			Other items of expenditure and income:	6			
(3,721)	0	(3,721)	Correction for Housing Improvement Loans		0	0	0
13,979	0	13,979	Revaluation & Impairment of General Fund Assets		3,493	0	3,493
18,383	0	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		(42,021)	0	(42,021)
653,891	(411,606)	242,285	Cost of Services	8	616,165	(428,679)	187,486
9,217	(12,132)	(2,915)	Loss/ (Gain) on the disposal of Non Current Assets	12c	13,575	(4,478)	9,097
83	0	83	Contributions to Other Local Public Bodies		86	0	86
4,152	0	4,152	Contributions of Housing Capital Receipts to Government Pool		1,160	0	1,160
13,452	(12,132)	1,320	Other Operating Expenditure		14,821	(4,478)	10,343
16,172	(7,903)	8,269	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	6,779	(6,170)	609
18,159	0	18,159	Interest payable and similar charges	11	16,657	0	16,657
0	(785)	(785)	Interest and Investment Income	11	0	(1,854)	(1,854)
10,648	0	10,648	Net interest on the defined benefit liability (asset)	34b	11,063	0	11,063
44,979	(8,688)	36,291	Financing, and Investment Income & Expenditure		34,499	(8,024)	26,475
0	(98,307)	(98,307)	Council Tax Income		0	(103,514)	(103,514)
0	(81,437)	(81,437)	Business Rates		0	(26,937)	(26,937)
0	(13,807)	(13,807)	General Government Grants	37c	0	(58,390)	(58,390)
0	0	0	S31 Business Rates Grant for COVID-19 Reliefs	6, 37c	0	(25,586)	(25,586)
0	(54,495)	(54,495)	Capital Grants and Contributions	37b	0	(25,228)	(25,228)
0	(248,046)	(248,046)	Taxation and Non-Specific Grant Income		0	(239,655)	(239,655)
712,322	(680,472)	31,850	Deficit/(Surplus) on the Provision of Services		665,485	(680,836)	(15,351)
		(35,094)	Deficit/(Surplus) on revaluation of non current assets	22a			(15,107)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		8,970	Remeasurements of the net defined benefit liability (asset)	34b			61,780
		(26,124)	Other Comprehensive (Income)/Expenditure				46,673
		5,726	Total Comprehensive Expenditure				31,322

THE FINANCIAL STATEMENTS

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)
<u>Movement in Reserves during 2020/21</u>										
Total Comprehensive Income and Expenditure	30,223		(45,574)					(15,351)	46,673	31,322
Adjustments between accounting basis and funding basis under regulations (note 10)	(77,009)		45,574		13,433	(2,497)	1,881	(18,618)	18,618	0
Transfers to / (from) earmarked reserves (note 9)	46,786	(46,786)						0		0
(Increase) / Decrease in Year	0	(46,786)	0	0	13,433	(2,497)	1,881	(33,969)	65,291	31,322
Balance at 31 March 2021	(10,066)	(134,549)	(2,000)	0	(10,656)	(2,497)	(48,752)	(208,520)	(711,210)	(919,730)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2019	(10,066)	(88,666)	(2,000)	0	(24,314)	0	(29,230)	(154,276)	(802,502)	(956,778)
<u>Movement in Reserves during 2019/20</u>										
Total Comprehensive Income and Expenditure	26,388		5,462					31,850	(26,124)	5,726
Adjustments between accounting basis and funding basis under regulations (note 10)	(25,485)		(5,462)		225		(21,403)	(52,125)	52,125	0
Transfers to / (from) earmarked reserves (note 9)	(903)	903						0		0
(Increase) / Decrease in Year	0	903	0	0	225	0	(21,403)	(20,275)	26,001	5,726
Balance at 31 March 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)

THE FINANCIAL STATEMENTS

Balance Sheet

<u>31 March 2020</u>		<u>Notes</u>	<u>31 March 2021</u>
£000			£000
1,461,929	Property, Plant & Equipment	12	1,527,916
190,249	Heritage Assets	13	190,249
118,145	Investment Properties	14	113,098
7,045	Intangible Assets	15	8,720
29,502	Long Term Investments	17b	27,310
3,733	Long Term Debtors	18	3,625
1,810,603	Non Current Assets		1,870,918
436	Short Term Investments	17b	2,434
0	Assets held for Sale	16	0
907	Stock (Inventories)		1,091
47,590	Short Term Debtors	18	71,524
31,217	Cash & Cash Equivalents	19	30,130
80,150	Current Assets		105,179
(4,352)	Cash & Cash Equivalents	19	(2,475)
(364)	Deferred Liabilities	38	(364)
(55,214)	Short Term Borrowing	17b	(28,417)
(72,857)	Short Term Creditors	20	(126,274)
(8,773)	Provisions	21	(5,936)
(141,560)	Current Liabilities		(163,466)
(51,002)	Long Term Creditors	17b	(47,556)
(6,516)	Provisions	21	(5,383)
(222,597)	Long Term Borrowing	17b	(213,847)
	Other Long Term Liabilities		
(13,462)	- Deferred Liabilities	38	(13,098)
(12,418)	- Cap. Grants & Conds Receipts in Advance	37a	(26,298)
(492,146)	- Pension Fund Liability	34c	(586,719)
(798,141)	Long Term Liabilities		(892,901)
951,052	Net Assets		919,730
	Useable Reserves		
(24,089)	Useable Capital Receipts Reserve	10	(10,656)
(50,633)	Cap. Grants & Conds Unapplied	10	(48,752)
(87,763)	Earmarked Revenue Reserves	9	(134,549)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,000)
0	HRA Major Repairs Reserve	10	(2,497)
(174,551)			(208,520)
	Unuseable Reserves		
(411,319)	Revaluation Reserve	22a	(414,815)
531	Pooled Fund Adjustment Account		719
(861,080)	Capital Adjustment Account	22b	(922,500)
113	Financial Instruments Adjustment Account		38
492,146	Pension Reserve	22c	586,719
1,159	Collection Fund Adjustment Account	22d	25,790
1,949	Accumulated Absences Account	22e	3,905
	Dedicated Schools Grant Adjustment Account	22f	8,934
(776,501)			(711,210)
(951,052)	Total Reserves		(919,730)

THE FINANCIAL STATEMENTS

Cash Flow Statement

<u>2019/20</u>		<u>2020/21</u>
£000		Notes £000
(31,850)	Net surplus or (deficit) on the provision of services	15,351
98,271	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a) 112,804
<u>(69,872)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a) <u>(35,660)</u>
(3,451)	Net Cash Flows From Operating Activities	92,495
(22,353)	Net Cash flows from Investing Activities	23 c) (30,653)
29,890	Net Cash flows from Financing Activities	23 d) <u>(61,052)</u>
4,086	Net Increase / (Decrease) in Cash and Cash Equivalents	790
22,779	Cash and cash equivalents at the beginning of the reporting period	23 e) 26,865
<u>26,865</u>	Cash and Cash Equivalents at the End of the Reporting Period	23 e) <u>27,655</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

These Financial Statements summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council carried out a detailed assessment of the likely impact of COVID-19 on its financial position for 2021/22 and considered its likely impact on future years as part of its medium term financial planning. Whilst the budget for 2021/22 was balanced, the medium term financial forecast indicates a budget shortfall of £22.5M for 2022/23. This is being addressed through work during 2021/22 to review the budget, the financial pressures faced and opportunities for savings. There is headroom available within reserves that could be used to help balance the budget in the short term if measures identified do not address the full extent of the shortfall.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of May 2022, with positive cash balances throughout. There is no identified need for borrowing to manage the working capital for revenue balances. The Council does have a significant capital programme for the same period and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. The timing and extent of the capital programme is being reviewed as part of the in-year budget review, however we are of the view that PWLB loans will be available if required.

For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the period of 12 months from the date of approval of these financial statements.

b) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

NOTES TO THE CORE FINANCIAL STATEMENTS

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

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

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

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

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

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

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

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

e) Charges to Revenue for Non-current Assets

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

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

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

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

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative

NOTES TO THE CORE FINANCIAL STATEMENTS

framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

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

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

g) Dedicated Schools Grant Deficit

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 establish new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead the deficit (including the accumulated deficit as at 31 March 2020) is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

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 Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. An accrual has also been made in 2020/21 in respect of annual leave carried forward by non-teaching staff as carry forward balances were much higher than in previous years due to COVID-19.

Termination Benefits

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

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

Post-Employment Benefits

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

Local Government Pension Scheme

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

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

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

Service Cost comprising:

- 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; and
- Net Interest on the Net Defined Benefit Liability (Asset) – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Teachers' Pension Scheme

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

i) Events after the Reporting Period

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

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

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

j) Financial instruments

Financial Liabilities

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Assets

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

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

Financial Assets Measured at Amortised Cost

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

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

k) 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

NOTES TO THE CORE FINANCIAL STATEMENTS

relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

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

Business Improvement District (BID)

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

Community Infrastructure Levy (CIL)

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

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

I) Heritage Assets

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

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

Heritage Assets on the Balance Sheet

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

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

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million

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cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and

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

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

m) Interests in Companies and Other Entities

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

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

n) Investment Property

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

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

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

o) Joint Operations

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

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

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p) Leases

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

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

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

The Council as Lessee

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

The Council as Lessor

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

q) Overheads and Support Services

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

r) 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

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amount of the asset given up by the Council.

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of

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their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

s) 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

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charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

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

t) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

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Contingent Assets

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

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

u) Reserves

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

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

v) 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.

w) Schools

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

x) Value Added Tax (VAT)

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

y) Fair Value Measurement

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

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

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

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

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

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

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

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

z) Rounding Convention

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

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2021/22 Code. New standards that are expected to be introduced in the 2021/22 Code that apply from 1 April 2021 are:

- Definition of a Business: Amendments to IFRS 3 *Business Combinations*
- Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*

None of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

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:

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government, with the deferral for a second year running of the Government's medium term Spending Review, postponement of the implementation of the Fair Funding Review, delays to the Adult Social Care funding green paper and uncertainties over the impact of the COVID-19 pandemic and gradual lifting of restrictions on major income streams. However, the Council has determined that

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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.

- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools in line with the provisions of the Code, and they are recognised on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

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

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

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

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

The table below illustrates the number and type of schools:

Status as at 31 March 2021	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	11	5	2	29
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	3	2	13	3	4	25
Foundation Trust	1	1	7	3	1	13
Free Schools			1			1
Grand Total	10	8	38	12	7	75

- **Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil

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consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration.

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Interests in Other Entities** – The Council has assessed that an interest in another entity falls within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However, the Council's interest is not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.
- **COVID-19 Funding** – the Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses and individuals. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement (CIES), other than any element of the funding relating to administration costs. Further details of the COVID-19 grants received, including those where the Council is acting as agent and they are not recognised in the CIES, are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

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.

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1,120.6M of assets were valued at current value in 2020/21.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £11.2M.
Investment Property	<p>The Council values its Investment Property annually and the fair value at 31 March 2021 was £113.1M.</p> <p>It remains unclear what impact the COVID-19 pandemic will have on property values and there is a risk of material changes during the next year.</p> <p>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.</p>	<p>A 1% change to the IP valuations would change the report value of IP by £1.1M.</p> <p>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 £1.3M if the useful lives were reduced by one year.</p>
Arrears	At 31 March 2021, the Council had a gross balance of trade debtors of £23.0M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, current and forecast economic conditions, is £7.5M, which represents 33% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 50% of the balance, it would require an additional £4.0M to set aside as an allowance.
NDR Appeals Provision	<p>Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2021, the Council's share of which is £8.7M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.</p>	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the year end NDR appeals provision by £0.9M.

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions Liability	<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 2021 and the projected service cost for the year ending 31 March 2021 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
Funded LGPS Benefits Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,581.431	1,649.275
% change of present value of total obligation	-2.1%	2.1%
Projected service cost (£M's)	60.631	64.962
Approximate % change in projected service cost	-3.4%	3.5%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,618.584	1,612.122
% change of present value of total obligation	0.2%	-0.2%
Projected service cost (£M's)	62.765	62.765
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,646.045	1,584.661
% change of present value of total obligation	1.9%	-1.9%
Projected service cost (£M's)	64.962	60.631
Approximate % change in projected service cost	3.5%	-3.4%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,673.506	1,558.816
% change of present value of total obligation	3.6%	-3.5%
Projected service cost (£M's)	65.276	60.254
Approximate % change in projected service cost	4.0%	-4.0%
* 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		

NOTES TO THE CORE FINANCIAL STATEMENTS

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from June 2020. Prior year comparatives have been updated to reflect the new structure. The restatement also reflects that the Coroners Service has been moved to Stronger Communities from Other Operating Expenditure and a correction between Investment Properties income and Service income (£1.520M). In the EFA the £0.903M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £30.947M deficit for Adjustments between the Funding and Accounting Basis and £31.850M deficit for Net Expenditure in the CIES have not changed as a result of the 2019/20 restatement. In the CIES the £712.322M Expenditure, £680.472M (-) Income and £31.850M Deficit on the Provision of Services have not changed as a result of the 2019/20 restatement.

Trade debtors as at 31 March 2020 in Note 17 Financial Instruments should have been shown gross of the impairment allowance, not net. The balance has been restated from £17.855M to £24.685M.

No other prior period adjustments have been made.

6. Other Items of Expenditure and Income

Income and Expenditure relating to COVID-19

The accounting arrangements for business rates income mean that the General Fund Balance at 31 March 2021 excludes the loss for rate reliefs introduced by the government in 2020/21 to support particular business sectors during the pandemic. This loss will be charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped in future years. However, the Council received £25.6M of government grant in 2020/21 to compensate for this loss. This material grant income has been shown separately within Taxation and Non-Specific Grant Income on the face of the CIES. The additional S31 business rates reliefs grant over and above what was budgeted for in 2020/21 has been transferred to the Revenue Grants Reserve - General to be used in 2021/22 to offset the business rates deficit that will be charged to the General Fund (see Note 9 Earmarked Reserves).

Details of general and specific revenue grant funding for COVID-19 is provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. In the CIES specific grant income is included within the Cost of Services and general grant income is included within Taxation and Non-Specific Grant Income. Where the Council has acted as an agent of the government in administering grants to businesses, social care providers and individuals these are excluded from the CIES.

The Cost of Services includes expenditure incurred relating to the pandemic. Some of these costs are for activities that are outside of the norm for the Council, such as COVID-19 outbreak control and management (£2.97M). Additional costs due to the pandemic on normal service activity which form part of the Cost of Services include care costs for clients discharged from hospital (£3.4M, of which £2.2M was funded by the CCG), payments to adult social care providers to help meet COVID-19 related costs (£2.1M), additional children's and adults social care staffing costs (£2.2M) and council tax hardship discounts for eligible working age tax payers (£2.76M). Some of these costs have been met from specific government grants.

Revaluation and Impairment of Property Plant and Equipment

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

Housing Improvement Loans

An adjustment was made in 2019/20 to reduce Revenue Expenditure Funded by Capital under Statute (REFCUS) and recognise outstanding home improvement loans as long term debtors. This was a correction to previous accounting treatment that was not treated as a prior period adjustment because the amount involved was not material to the accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on the 14 June 2021. 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 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

One community school has converted to academy status since 31 March 2021. The estimated value of the school that will be removed from the Balance Sheet during 2021/22 is £3.1M.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

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

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustments

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

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

Other Differences

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

- **For services** – add in expenditure for staff holiday entitlement, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure.
- **For Financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For Taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	7,628	4,052	(204)	11,476
Culture & Homes	3,793	761	(1,830)	2,724
Customer & Organisation	1,099	3,562	(1,610)	3,051
Finance & Income Generation	916	1,717	2,828	5,461
Green City & Place	9,189	3,579	(5,526)	7,242
Health & Adults	157	3,152	(8,059)	(4,750)
Housing Revenue Account (HRA)	0	3,912	(518)	3,394
Stronger Communities	23	995	(306)	712
Housing Benefit	0	0	205	205
Other Income & Expenditure	0	0	(2,113)	(2,113)
Other items of expenditure and income:				
Correction for Housing Improvement Loans	0	0	0	0
Revaluation & Impairment of General Fund Assets	3,493	0	0	3,493
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(42,021)	0	0	(42,021)
Cost of Services	(15,723)	21,730	(17,133)	(11,126)
Other Income and Expenditure from the Expenditure and Funding Analysis	(20,608)	11,063	52,106	42,561
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	(36,331)	32,793	34,973	31,435

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2019/20 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	11,414	4,817	5,196	21,427
Culture & Homes	3,857	676	(1,374)	3,159
Customer & Organisation	1,153	3,637	1,753	6,543
Finance & Income Generation	519	(4,628)	5,948	1,839
Green City & Place	7,793	3,474	(6,159)	5,108
Health & Adults	165	3,453	(295)	3,323
Housing Revenue Account (HRA)	0	488	(518)	(30)
Stronger Communities	221	972	73	1,266
Housing Benefit	0	0	(580)	(580)
Other Income & Expenditure	0	0	1,482	1,482
Other items of expenditure and income:				
Correction for Housing Improvement Loans	(3,721)	0	0	(3,721)
Revaluation & Impairment of General Fund Assets	13,979	0	0	13,979
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	18,383	0	0	18,383
Cost of Services	53,763	12,889	5,526	72,178
Other Income and Expenditure from the Expenditure and Funding Analysis	(51,297)	10,647	(581)	(41,231)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	2,466	23,536	4,945	30,947

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Analysis of income and expenditure by nature

2019/20 £000	Analysis of income and expenditure by nature	2020/21 £000
	Income	
(125,364)	Revenue from contracts with service recipients	(109,937)
(344,627)	Government grants and contributions	(418,134)
(9,917)	Other service income	(9,812)
(7,903)	Income in relation to investment properties	(6,170)
(785)	Interest and investment income	(1,854)
(179,744)	Income from council tax and non-domestic rates	(130,451)
(12,132)	Proceeds from the disposal of non-current assets	(4,478)
(680,472)		(680,836)
	Expenditure	
254,556	Employee benefits expenses	250,750
322,935	Other service expenses	355,265
92,655	Depreciation, amortisation, impairments and revaluations	17,015
18,159	Interest payable and similar charges	16,657
10,648	Net interest expense on the pension defined liability	11,063
4,152	Payments to Housing Capital Receipts Pool	1,160
9,217	Costs from the disposal of non-current assets	13,575
712,322	Total Expenditure	665,485
31,850	(Surplus) or Deficit on the Provision of Services	(15,351)

c) Analysis of service income

Analysis of Service Income 2020/21	Government Grants and Contributions £000	Revenue from Contracts with Service £000	Other Service Income £000	Total Service Income £000
Children & Learning	(170,151)	(1,350)	(101)	(171,602)
Culture & Homes	(3,399)	(720)	(327)	(4,446)
Customer & Organisation	(1,647)	(1,953)	(2)	(3,602)
Finance & Income Generation	(8,492)	(2,286)	(796)	(11,574)
Green City & Place	(2,945)	(11,570)	(4,525)	(19,040)
Health & Adults	(48,553)	(11,858)	0	(60,411)
Housing Revenue Account (HRA)	0	(75,704)	(871)	(76,575)
Stronger Communities	(2,693)	(4,491)	(570)	(7,754)
Housing Benefit	(71,050)	0	0	(71,050)
Other Income & Expenditure	0	(5)	(2,620)	(2,625)
	(308,930)	(109,937)	(9,812)	(428,679)

NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2019/20 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(152,541)	(4,808)	(226)	(157,575)
Culture & Homes	(3,372)	(2,029)	(294)	(5,695)
Customer & Organisation	(743)	(2,855)	(1)	(3,599)
Finance & Income Generation	(3,470)	(2,911)	(1,143)	(7,524)
Green City & Place	(2,455)	(17,264)	(6,898)	(26,617)
Health & Adults	(38,442)	(12,238)	0	(50,680)
Housing Revenue Account (HRA)	0	(78,139)	(883)	(79,022)
Stronger Communities	(2,639)	(4,872)	(472)	(7,983)
Housing Benefit	(72,663)	0	0	(72,663)
Other Income & Expenditure	0	(248)	0	(248)
	(276,325)	(125,364)	(9,917)	(411,606)

9. Transfers (to) / from Earmarked Reserves

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

	Balance 31 March 2020	Net Transfers In 2020/21	Net Transfers Out 2020/21	Balance 31 March 2021
	£000	£000	£000	£000
<u>Earmarked Reserves</u>				
<u>General Fund</u>				
Medium Term Financial Risk Reserve	(50,318)	(9,470)		(59,788)
Organisational Design Reserve	(6,640)		6,640	0
Revenue Grant Reserve - General	(9,521)	(25,522)		(35,043)
Social Care Demand Risk Reserve	0	(11,612)		(11,612)
Portfolio Carry Forwards Reserve	(2,603)	(3,460)		(6,063)
PFI Sinking Fund	(4,523)	(2)		(4,525)
Insurance Reserve	(2,808)		150	(2,658)
On Street Parking	(3,095)		273	(2,822)
Digital Strategy Reserve	(6,156)		3,923	(2,233)
Dedicated Schools Grant Reserve	7,420	(7,420)		0
General Fund Contributions to Capital	(4,256)		2,635	(1,621)
Other Reserves	(3,698)	(315)		(4,013)
	(86,198)	(57,801)	13,621	(130,378)
<u>Schools</u>				
School Balances	(1,565)	(2,606)		(4,171)
	(87,763)	(60,407)	13,621	(134,549)

NOTES TO THE CORE FINANCIAL STATEMENTS

The purpose of the main reserves are noted below:

Medium Term Financial Risk Reserve

As part of the Council's Medium Term Financial Forecast (MTFF) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed. A number of separate reserves have been consolidated into this reserve during 2020/21.

Organisational Design Reserve

The reserve held monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes for the period of the MTFF. This reserve has been consolidated into the Medium Term Financial Risk Reserve.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years. £32.1M of the balance at 31 March 2021 is for COVID-19 grants received in 2020/21 to be used in 2021/22. Of this, £24.7M is for additional S31 business rates reliefs grant over and above the budgeted grant income for 2020/21 and £1.1M is for compensation grant for council tax losses. The accounting arrangements for business rates and council tax mean that the deficits on the Collection Fund in 2020/21 are charged to the General Fund in future years. Due to this timing difference the compensation funding for additional business rates reliefs and council tax shortfalls has been set aside in the reserve to be used to offset the deficits charged to the General Fund in 2021/22 and it does not represent additional resources available to the Council to spend on service provision.

Social Care Demand Risk Reserve

The reserve holds monies to mitigate the risks of demand pressures within both Children's and Adults Social Care, such as rising client numbers.

Portfolio Carry Forward Reserve

This reserve holds budgets carried forward for specific purposes as agreed by Council.

PFI Sinking Fund

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

Insurance Reserve

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

On Street Parking Reserve

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

Digital Strategy Reserve

Monies have been set aside to be used in the delivery of the Council's digital strategy.

Dedicated Schools Grant Reserve

This reserve held the deficit on the Schools Budget to be funded from future Dedicated Schools Grant (DSG) income. In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 the deficit as at 31 March 2021 has been transferred to a new unusable reserve the Dedicated Schools Grant Adjustment Account. See Note 22 (f) for further details.

General Fund Contributions to Capital

This reserve holds monies to finance the capital programme.

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

2020/21	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,774)							(1,774)	1,774	0
Depreciation and revaluation of Non Current Assets	(29,399)		20,468					(8,931)	8,931	0
Movement on Market Value of Investment Properties	(6,366)		57					(6,309)	6,309	0
Capital Grants and Contributions Applied	32,404		514					32,918	(32,918)	0
Capital Grants and Contributions Unapplied	(1,881)						1,881	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(6,081)							(6,081)	6,081	0
Short-term Accumulating Compensated Absences Account	(1,956)							(1,956)	1,956	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(113)							(113)	113	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(45,514)		(9,991)					(55,505)	55,505	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,624		4,088					22,712	(22,712)	0
Statutory Provision for the Financing of Capital Investment	9,907							9,907	(9,907)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,160)				1,160			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	660		7,187					7,847	(7,847)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(24,631)							(24,631)	24,631	0
Transfers to/(from Major Repairs Reserves			21,553			(21,553)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,056		19,056	(19,056)	0
Capital Receipts in Year	119		4,359		(4,478)			0	0	0
Non-current Asset Disposals	(10,914)		(2,661)					(13,575)	13,575	0
Capital Receipts Financing of New Capital Expenditure					16,829			16,829	(16,829)	0
Adjustment for repayment of loans					(78)			(78)	78	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(8,934)							(8,934)	8,934	0
	(77,009)	0	45,574	0	13,433	(2,497)	1,881	(18,618)	18,618	0

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,458)							(1,458)	1,458	0
Depreciation and revaluation of Non Current Assets	(38,030)		(37,980)					(76,010)	76,010	0
Movement on Market Value of Investment Properties	(15,643)		456					(15,187)	15,187	0
Capital Grants and Contributions Applied	35,650		542					36,192	(36,192)	0
Capital Grants and Contributions Unapplied	21,403						(21,403)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(4,023)							(4,023)	4,023	0
Short-term Accumulating Compensated Absences Account	(219)							(219)	219	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(906)							(906)	906	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(53,610)		(2,106)					(55,716)	55,716	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	30,964		1,216					32,180	(32,180)	0
Statutory Provision for the Financing of Capital Investment	9,303							9,303	(9,303)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(4,152)				4,152			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	2,879		8,955					11,834	(11,834)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(6,675)							(6,675)	6,675	0
Transfers to/(from) Major Repairs Reserve			19,597			(19,597)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,597		19,597	(19,597)	0
Capital Receipts in Year	1,909		10,223		(12,132)			0	0	0
Non-current Asset Disposals	(2,852)		(6,365)					(9,217)	9,217	0
Capital Receipts Financing of New Capital Expenditure					8,205			8,205	(8,205)	0
Capitalised shares written off	(25)							(25)	25	0
	(25,485)	0	(5,462)	0	225	0	(21,403)	(52,125)	52,125	0

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Interest Payable and Receivable

Interest Payable and Similar Charges		
<u>2019/20</u>		<u>2020/21</u>
£000		£000
7,498	Interest on External Loans	7,204
7,095	PFI Schemes	6,895
372	Payments to HCC in respect of Transferred Debt	291
225	Other	243
2,969	Movement of impairment allowance & debt write-offs	2,024
<u>18,159</u>		<u>16,657</u>

Interest and Investment Income		
<u>2019/20</u>		<u>2020/21</u>
£000		£000
(1,745)	Investments	(2,042)
(22)	HRA Cash Balances	0
982	(Gain) /Loss on Financial Instruments	188
<u>(785)</u>		<u>(1,854)</u>

12. Property, Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,528M (2019/20 £1,462M), an increase of £66M (2019/20 £39M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2021.

a) Depreciation

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

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 40 years.

b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. 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).

NOTES TO THE CORE FINANCIAL STATEMENTS

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

c) Disposals

For 2020/21 there was an overall loss of £9.1M loss (2019/20 - 2.9M gain) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of three schools transferring to academy status, offset by a £1.6M gain (2019/20 - £3.9M gain) relating to the Housing Revenue Account.

d) Current Value

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PPE) 2020/21

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2020	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	83,401
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0	(1,906)
	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	81,495
Additions	18,528	2,637	8,013	21,679	0	0	22,528	73,385	2
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	(7,413)	0	0	0	0	0	(7,413)	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	20,932	(7,824)	0	0	0	0	0	13,108	(2,058)
Derecognition-Disposals	(2,661)	(11,205)	(14)	0	0	0	0	(13,880)	
Reclassified outside PPE	0	0	0	0	0	0	0	0	
Other Reclassifications	10,173	0	0	0	0	0	(10,173)	0	
At 31 March 2021	702,965	518,766	58,944	300,055	3,897	1,442	53,276	1,639,345	79,439
Accumulated Depreciation and Impairment									
At 1 April 2020	(21,089)	(22,930)	(17,367)	(50,511)	(314)	(5)	0	(112,216)	(9,282)
Adjustment to Previous Year Charges	0	(1)		(2)				(3)	1,940
	(21,089)	(22,931)	(17,367)	(50,513)	(314)	(5)	0	(112,219)	(7,342)
Depreciation in Year	(21,311)	(16,297)	(3,922)	(5,895)	(17)	(13)	0	(47,455)	(3,560)
Impairment in Year	0	0	0	0	0	0	0	0	
Written out to the Revaluation Reserve	0	22,520	0	0	0	0	0	22,520	
Written out to the (Surplus)/ Deficit on the Provision of Services	21,089	4,330	0	0	0	0	0	25,419	1,846
Derecognition-Disposals	0	292	14	0	0	0	0	306	
Other Reclassifications	0	0	0	0	0	0	0	0	
At 31 March 2021	(21,311)	(12,086)	(21,275)	(56,408)	(331)	(18)	0	(111,429)	(9,056)
Net Book Value									
At 31 March 2021	681,654	506,680	37,669	243,647	3,566	1,424	53,276	1,527,916	70,383
At 31 March 2020	634,904	519,641	33,578	227,865	3,583	1,437	40,921	1,461,929	74,119

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost			37,669	243,647	3,566		53,276	338,158
Valued at Fair Value in:								
2020/21	681,654	438,579				324		1,120,557
2019/20		16,656				869		17,525
2018/19		36,537				231		36,768
2017/18		12,220						12,220
2016/17		2,091						2,091
Deminimus		597						597
Net Book Value as at 31 March 2021	681,654	506,680	37,669	243,647	3,566	1,424	53,276	1,527,916

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PPE) 2019/20									
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2019	673,002	525,995	47,033	251,563	3,897	3,234	29,026	1,533,750	76,896
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0	7,638
	673,002	525,995	47,033	251,563	3,897	3,234	29,026	1,533,750	84,534
Additions	25,389	9,942	3,912	26,813	0	0	21,496	87,552	15
Donations	0	0	0	0	0	0	0	0	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	16,099	0	0	0	112	0	16,211	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(36,034)	(19,540)	0	0	0	(74)	0	(55,648)	(1,148)
Derecognition-Disposals	(6,364)	(1,606)	0	0	0	0	0	(7,970)	
Derecognitions- Fully Depreciated	0	0	0	0	0	0	0	0	
Reclassified outside PPE	0	0	0	0	0	0	0	0	
Other Reclassifications	0	11,681	0	0	0	(1,830)	(9,601)	250	
At 31 March 2020	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	83,401
Accumulated Depreciation and Impairment									
At 1 April 2019	(19,539)	(31,690)	(14,027)	(45,304)	(296)	0	0	(110,856)	(11,238)
Adjustment to Previous Year Charges	1	(1)	0	0	0	0	0	0	122
	(19,538)	(31,691)	(14,027)	(45,304)	(296)	0	0	(110,856)	(11,116)
Depreciation in Year	(19,356)	(15,724)	(3,340)	(5,207)	(18)	(2)	0	(43,647)	(3,653)
Impairment in Year	(1,734)	0	0	0	0	0	0	(1,734)	
Written out to the Revaluation Reserve	0	18,848	0	0	0	36	0	18,884	
Written out to the (Surplus)/ Deficit on the Provision of Services	19,539	5,479	0	0	0	0	0	25,018	5,487
Derecognition-Disposals	0	119	0	0	0	0	0	119	
Derecognitions-Other								0	
Other Reclassifications		39				(39)	0	0	
At 31 March 2020	(21,089)	(22,930)	(17,367)	(50,511)	(314)	(5)	0	(112,216)	(9,282)
Net Book Value									
At 31 March 2020	634,904	519,641	33,578	227,865	3,583	1,437	40,921	1,461,929	74,119
At 31 March 2019	653,463	494,305	33,006	206,259	3,601	3,234	29,026	1,422,894	65,658

Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years budgeted to cost £64.4M. Similar commitments at 31 March 2020 were £59.5M. The major commitments are:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2019/20</u>	<u>2020/21</u>
	£000	£000
HRA - Estate Regeneration & New Build	32,701	198
HRA - Supporting Communities	275	3,705
HRA - Improving Quality of Homes	1,506	503
HRA - Supporting Independent Living	1,599	2,874
HRA - Making Homes Safe	14,473	20,717
HRA - Making Homes Energy Efficient	1,904	2,523
Sholing Technical College Renovation	1,584	760
Regent Park Expansion	1,511	0
Southampton All Through School	1,378	29,551
Desktop Refresh	599	730
Warm Homes	465	116
Electric Vehicles	432	1,566
Other Various Minor Commitments	1,093	1,154
Total	<u>59,520</u>	<u>64,397</u>

13. Heritage Assets

As set out in our Accounting Policies, Note 11) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2019	190,000	278	190,278
Additions			0
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
31 March 2020	190,000	278	190,278
Accumulated Depreciation and Impairment			
01 April 2019	0	(29)	(29)
31 March 2020	0	(29)	(29)
Net Book Value			
31 March 2020	190,000	249	190,249
31 March 2019	190,000	249	190,249
Cost or Valuation			
01 April 2020	190,000	278	190,278
Additions		0	0
Adj for depreciation previously written out			0
31 March 2021	190,000	278	190,278
Accumulated Depreciation and Impairment			
01 April 2020	0	(29)	(29)
Depreciation		0	0
31 March 2021	0	(29)	(29)
Net Book Value			
31 March 2021	190,000	249	190,249
31 March 2020	190,000	249	190,249

NOTES TO THE CORE FINANCIAL STATEMENTS

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>2019/20</u> <u>Restated</u> £000		<u>2020/21</u> £000
(7,903)	Rental Income	(6,170)
<u>985</u>	Operating Expenditure	<u>470</u>
(6,918)	Net (Income) / Expenditure	(5,700)
15,187	Net (Gains) / Losses from fair value adjustments	6,309
<u>8,269</u>	Total Net (Income) / Expenditure	<u>609</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>2019/20</u> £000	<u>2020/21</u> £000
Balance at start of year	134,948	118,145
Additions:		
Purchases	0	1,263
Subsequent Expenditure	0	0
Disposals	(1,366)	(1)
Net gains / (losses) from fair value adjustments	(15,187)	(6,309)
Transfers		
(to) / from Property, Plant and Equipment	(250)	0
Balance at End of Year	<u>118,145</u>	<u>113,098</u>

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

NOTES TO THE CORE FINANCIAL STATEMENTS

comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

15. Intangible Assets

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

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

Purchased Software		
	<u>31 March</u>	<u>31 March</u>
	<u>2020</u>	<u>2021</u>
	£000	£000
Gross carrying amount	10,463	11,672
Derecognition of Assets fully amortised	<u>(583)</u>	<u>0</u>
	9,880	11,672
Accumulated amortisation	<u>(3,169)</u>	<u>(4,627)</u>
Net Carrying Amount at Start of the Year	6,711	7,045
Purchases	1,792	3,449
Amortisation for the period	<u>(1,458)</u>	<u>(1,774)</u>
Net Carrying Amount at End of the Year	<u>7,045</u>	<u>8,720</u>

16. Assets Held for Sale (AHFS)

As at 31 March 2021 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

NOTES TO THE CORE FINANCIAL STATEMENTS

17. Financial Instruments

a) Financial Instruments Classifications

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

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

Financial Liabilities

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

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

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

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

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
 - cash in hand,
 - bank current and deposit accounts,
 - loans to other local authorities,
 - covered bonds issued by banks and building societies,
 - bonds issued by multilateral development banks and large companies,
 - loans made for service purposes,
 - trade receivables for goods and services provided.
- Fair value through profit and loss (all other financial assets) comprising:
 - money market funds managed by fund managers,
 - pooled property funds managed by CCLA fund managers,
 - equity investments

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

b) Financial Instruments Balances

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Liabilities	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2020	2021	2020	2021	2020	2021
	£000	£000	£000	£000	£000	£000
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(222,597)	(213,847)	(54,278)	(27,750)	(276,875)	(241,597)
- Accrued interest			(936)	(667)	(936)	(667)
Total Borrowing	(222,597)	(213,847)	(55,214)	(28,417)	(277,811)	(242,264)
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(4,352)	(2,475)	(4,352)	(2,475)
Total Cash Overdrawn	0	0	(4,352)	(2,475)	(4,352)	(2,475)
<i>Liabilities at amortised cost:</i>						
- Finance leases						0
- PFI arrangements	(50,965)	(47,519)			(50,965)	(47,519)
- Other long-term creditors	(37)	(37)			(37)	(37)
Total Long-term Creditors	(51,002)	(47,556)	0	0	(51,002)	(47,556)
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,039)	(3,446)	(3,039)	(3,446)
- Trade payables			(26,717)	(30,048)	(26,717)	(30,048)
Included in Creditors	0	0	(29,756)	(33,494)	(29,756)	(33,494)
Total Financial Liabilities	(273,599)	(261,403)	(89,322)	(64,386)	(362,921)	(325,789)

Financial Assets	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2020	2021	2020	2021	2020	2021
	£000	£000	£000	£000	£000	£000
<i>At amortised cost</i>						
- Principal	3,033	1,029	0	2,000	3,033	3,029
- Accrued interest			141	142	141	142
<i>At fair value through profit & loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	295	292	295	292
- Fair value adjustments	(531)	(719)			(531)	(719)
Total Investments	29,502	27,310	436	2,434	29,938	29,744
<i>Loans and Receivables</i>						
- Principal			2,367	772	2,367	772
- Accrued interest						0
<i>At fair value through profit & loss</i>						
- Principal			28,850	29,358	28,850	29,358
- Accrued interest						0
Total Cash and Cash Equivalents	0	0	31,217	30,130	31,217	30,130
<i>At amortised costs</i>						
- Trade receivables (2019/20 restated)			24,685	22,993	24,685	22,993
- Loans made for service purposes	3,733	3,625		1	3,733	3,626
Included in Debtors	3,733	3,625	24,685	22,994	28,418	26,619
Total Financial Assets	33,235	30,935	56,338	55,558	89,573	86,493

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 includes accrued interest on long term liabilities and investments that is payable/receivable in 2021/22.

c) Offsetting Financial Assets and Liabilities

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

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Financial Instruments – Gains and Losses

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

	2019/20	2020/21			
		Financial Liabilities	Financial Assets		Total £000
		Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	15,266	14,708			14,708
Gains/losses on derecognition	(76)	(75)			(75)
Impairment Losses	2,969		2,024		2,024
Interest Payable and Similar Charges	18,159	14,633	2,024	0	16,657
Interest income	(1,767)		(873)	(1,169)	(2,042)
Gains/losses on derecognition	982			188	188
Interest and Investment Income	(785)	0	(873)	(981)	(1,854)
Net Gain / (Loss) for the Year	17,374	14,633	1,151	(981)	14,803

e) Financial Instruments – Fair Values

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

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2021.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount.

NOTES TO THE CORE FINANCIAL STATEMENTS

This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

<u>Balance Sheet</u> <u>31 March</u> <u>2020</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2020</u> <u>£000</u>		<u>Fair Value</u> <u>Level</u>	<u>Balance Sheet</u> <u>31 March</u> <u>2021</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2021</u> <u>£000</u>
<u>Financial Liabilities held at amortised cost</u>					
(257,875)	(311,394)	Public Works Loans	2	(222,597)	(279,635)
(9,000)	(12,990)	LOBO Loans	2	(9,000)	(12,964)
(54,004)	(84,158)	PFI/Finance Lease Liabilities	2	(50,965)	(84,158)
(320,879)	(408,542)			(282,562)	(376,757)
<u>Liabilities for which Fair Value is not disclosed*</u>					
(37)		Other Long Term Creditors		(37)	
(10,936)		Short Term borrowing		(10,667)	
(4,352)		Bank Overdraft		(2,475)	
(26,717)		Trade Payables (Creditors)		(30,048)	
(42,042)				(43,227)	
(362,921)		Total Financial Liabilities		(325,789)	

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

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

Property funds totalling £26.3M have been moved from level 2 to level 1 of the hierarchy for 2020/21 reflecting the resumption of an active market in these instruments.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance</u>	<u>Fair Value</u>		<u>Fair Value</u>	<u>Balance</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2020</u>	<u>2020</u>			<u>2021</u>	<u>2021</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
		Financial Assets held at Fair Value through P&L			
28,850	28,850	Money Market Funds	1	29,358	29,358
26,469	26,469	Property Funds	1	26,281	26,281
55,319	55,319			55,639	55,639
		Financial Assets held at Amortised Costs			
3,013	3,489	Corporate, Covered and Government Bonds	1	3,009	3,363
3,013	3,489			3,009	3,363
		Assets for which Fair Value is not disclosed**			
		<i>Recorded on balance sheet as:</i>			
3,733		Long Term Debtors		3,625	
436		Short Term investments		434	
20		Shares in unlisted companies		20	
2,367		Cash and Cash Equivalents		772	
24,685		Trade Receivables (Debtors) (2019/20 restated)		22,993	
		Other Debtors		1	
31,241				27,845	
		Total Financial Assets		86,493	
89,573					

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

f) Financial Instruments – Risks

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

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

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

The main risks covered are:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

g) Credit Risk

Treasury Investments

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

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

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £59.9M (2019/20 £61.2M) 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 2021 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 10 February 2020. The Treasury Strategy can be seen as Item 35 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2020/21 to 2023/24](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2021 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2020 £000	2021 £000	2020 £000	2021 £000
AAA	3,013	1,009	295	2,142
AA+			0	0
AA			10	0
AA-			16,839	12,000
A+			12,000	18,028
A			2,368	102
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	26,469	26,281	141	292
Total Investments	29,502	27,310	31,653	32,564

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.

The above analysis shows that all deposits outstanding as at 31 March 2021 met the Council's minimum credit rating criteria of A- or above.

NOTES TO THE CORE FINANCIAL STATEMENTS

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2021 was £0.002M (2020: £0.007M) but as this falls below the Council's de-minimis level no offset was made.

Trade Receivables

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

<u>Trade Debtors and Impairment Allowance</u>		
	<u>Outstanding</u> <u>31 March 2020</u> £000	<u>Outstanding</u> <u>31 March 2021</u> £000
Trade Debtors (2019/20 restated)	24,685	22,993
Trade Debtors Impairment Allowance	(6,830)	(7,484)

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

- Adult Social Care clients (£1.455M)
- Housing tenants (£5.520M)
- Other service recipients (£0.509M)

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

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

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

<u>2019/20</u> <u>Restated</u> £000		<u>2020/21</u> £000
	<u>Trade debtors, analysed by age</u>	
7,629	Less than two months	8,515
7,694	Two to six months	5,098
4,383	Six months to one year	4,605
4,979	More than one year	4,775
<u>24,685</u>		<u>22,993</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

h) Liquidity Risk

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

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

The maturity analysis of the principal borrowed as at 31 March 2021 was as follows:

<u>Outstanding</u> <u>31 March 2020</u>	<u>% of Total</u> <u>Portfolio</u>	Total Financial Liabilities	<u>Outstanding</u> <u>31 March 2021</u>	<u>% of Total</u> <u>Portfolio</u>
£000	%		£000	%
(257,875)	71	Public Works Loan Board	(222,597)	68
(19,000)	5	Other Financial Institutions (borrowing)	(19,000)	6
(26,717)	7	Trade Payables	(30,048)	9
(59,329)	17	Other Financial Institutions	(54,144)	17
(362,921)	100		(325,789)	100
Analysis of Loans by Maturity				
(80,322)	22	Less than 1 Year	(55,387)	17
(12,196)	3	Between 1 and 2 years	(9,143)	3
(28,413)	8	Between 2 and 5 years	(28,755)	9
(50,084)	14	Between 5 and 10 years	(52,131)	16
(59,059)	16	Between 10 and 20 years	(42,526)	13
(109,600)	30	Between 20 and 40 years	(124,600)	38
(14,247)	4	Over 40	(4,247)	1
(9,000)	3	Uncertain Date**	(9,000)	3
(362,921)	100		(325,789)	100

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

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

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Loans and Other Long term Liabilities Outstanding (Nominal Value)

Source	<u>Outstanding</u>	<u>Outstanding</u>
	<u>31 March 2020</u>	<u>31 March 2021</u>
	£000	£000
Public Works Loan Board	(257,875)	(222,597)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(10,000)	(10,000)
PFI Liabilities	(54,004)	(50,965)
Other long-term Creditors	(37)	(37)
Total	<u>(330,916)</u>	<u>(292,599)</u>

i) 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 will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

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

Movements in the fair value of fixed rate investments measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2021 £280.10M (120%) (2019/20 £308.4M (114%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £47.4M (2019/20 £38.7M) net investments exposed to variable rates.

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20		2020/21	
£000		£000	
3,500	Increase in interest payable on variable rate borrowings	1,518	
(500)	Increase in interest payable on variable rate investments	(500)	
1,288	Decrease in fair value of investments held at FVPL (assumes 5%)	1,281	
4,288	Impact on the Provision of Services (Surplus) / Deficit	2,299	
375	Share of overall impact debited/credited to HRA	836	
(62,269)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost (no impact on Comprehensive Income and Expenditure)	(62,467)	

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

The Council has £9M (2019: £9M) of "Lender's option, borrower's option" (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2021 the Council had £27M (2019/20 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £0.188M (2019/20 £0.982M reduction), taking the fair value from £26.47M to £26.28M. A 5% fall in commercial property prices would result in a £1.28M (2019/20 £1.29M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2021.

31 March 2020 £000		31 March 2021 £000	
3,721	Housing Improvement Loans	3,625	
12	Other	0	
3,733		3,625	

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2021.

NOTES TO THE CORE FINANCIAL STATEMENTS

		<u>Debtors</u>		
<u>31 March</u>			<u>31 March</u>	
<u>2020</u>			<u>2021</u>	
<u>£000</u>			<u>£000</u>	
13,564	Central Government		28,502	
4,859	Other Local Authorities		4,332	
1,881	NHS Bodies		5,682	
56,936	Other Entities and Individuals		60,503	
(29,650)	Debtors Impairment Allowance		(27,495)	
<u>47,590</u>	Total Debtors		<u>71,524</u>	

The debtors balance with central government as at 31 March 2021 includes £17.1M due for the government's share of the business rates deficit on the Collection Fund.

19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by £2.5M (2019/20 £4.4M), the Council's actual bank account balance at the Bank was a credit balance of £2.6M at 31 March 2021 (£0.2M at 31 March 2020). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

<u>31 March</u>		<u>31 March</u>	
<u>2020</u>		<u>2021</u>	
<u>£000</u>		<u>£000</u>	
(4,352)	Bank Accounts	(2,475)	
(4,352)		(2,475)	
28,850	Money Market Funds	29,358	
2,265	Call Accounts	670	
102	Petty Cash	102	
<u>31,217</u>		<u>30,130</u>	
<u>26,865</u>		<u>27,655</u>	

20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2021.

The creditors balance with central government includes £17.6M of business support grants where the Council is acting as an agent of the government in administering the funds and £24.7M of S31 business rates reliefs grant. The latter was paid to the Council so that it could continue to pay relevant parties their share of business rates income as estimated in January 2020 without suffering cash flow problems due to the award of

NOTES TO THE CORE FINANCIAL STATEMENTS

significant additional reliefs to support particular business sectors during the pandemic and is now repayable. The increase in the balance for other entities and individuals is mainly due to the timing of the final payment run for the year.

<u>Creditors</u>		<u>31 March</u> <u>2021</u> <u>£000</u>
<u>31 March</u> <u>2020</u> <u>£000</u>		
21,599	Central Government	64,265
3,198	Other Local Authorities	3,003
920	NHS Bodies	2,231
47,140	Other Entities and Individuals	56,775
<u>72,857</u>	Total Creditors	<u>126,274</u>

21. Provisions

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

	<u>Balance at 31</u> <u>March 2020</u> <u>£000</u>	<u>Additional Provisions</u> <u>Made in Year</u> <u>£000</u>	<u>Amounts Used</u> <u>in Year</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
<u>General Fund</u>				
NDR Appeals Provision	13,042	9,577	(13,909)	8,710
General Insurance Funds	2,156	793	(340)	2,609
Other Provisions	91	0	(91)	0
Total	<u>15,289</u>	<u>10,370</u>	<u>(14,340)</u>	<u>11,319</u>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u>			<u>Total Long Term</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
	<u>Due within 1</u> <u>Year</u> <u>£000</u>	<u>Due between 2</u> <u>to 5 years</u> <u>£000</u>	<u>Over 5 years</u> <u>£000</u>	<u>£000</u>	
<u>General Fund</u>					
NDR Appeals Provision	5,356	3,354	0	3,354	8,710
General Insurance Funds	580	2,029	0	2,029	2,609
Other Provisions	0	0	0	0	0
Total	<u>5,936</u>	<u>5,383</u>	<u>0</u>	<u>5,383</u>	<u>11,319</u>

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council's share of the provision (2020/21 49%, 2019/20 74%) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2021.

NOTES TO THE CORE FINANCIAL STATEMENTS

The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.

The amount used in year includes the effect of having a lower share of the provision balance at 31 March 2021 compared to the previous year, with standard 50% Business Rates Retention Scheme being in operation in 2020/21 compared to a 75% Business Rates Retention Pilot in 2019/20.

b) Insurance Provisions

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

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2021 amounted to £2.6M (2019/20 £2.1M). Additionally, a further £2.4M (2019/20 £2.4M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts.

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

c) Other Provisions

All other provisions have been used up during the year.

22. Unusable Reserves

a) Revaluation Reserve

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> <u>£000</u>		<u>2020/21</u> <u>£000</u>
(382,661)	Balance Brought Forward	(411,319)
(77,085)	Upward revaluations of assets	(30,888)
41,991	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	15,781
(35,094)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,107)
5,867	Difference between fair value depreciation and historical cost depreciation	5,591
569	Accumulated Revaluations on Disposals	6,020
<u>(411,319)</u>	Balance Carried Forward	<u>(414,815)</u>

b) Capital Adjustment Account (CAA)

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

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

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

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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> £000		<u>2020/21</u> £000
(875,433)	Balance Brought Forward	(861,080)
	Capital Financing	
(8,205)	Usable Capital Receipts	(16,829)
(36,192)	Capital Grants & Contributions	(32,918)
(19,597)	HRA Financing from the Major Repairs Reserve	(19,056)
(11,834)	Revenue Contributions	(7,847)
	Other Movements	
4,023	Revenue Expenditure Funded from Capital under Statute	6,081
	Net gains/losses from fair value adjustments on Investment	
15,187	Properties	6,309
1,458	Amortisation of Intangibles	1,774
76,010	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	8,931
9,217	Disposals	13,575
(5,867)	Historic Cost Depreciation Adjustment	(5,591)
(569)	Accumulated Revaluations on Disposals	(6,020)
(9,303)	Provision for the Financing of Capital Investment	(9,907)
25	Other adjustments	78
<u>(861,080)</u>	Balance Carried Forward	<u>(922,500)</u>

c) Pensions Reserve

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
459,640	Balance Brought Forward	492,146
8,970	Remeasurement of the net defined benefit liability/(asset)	61,780
55,716	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	55,505
(32,180)	Employer's pension contributions and direct payments to pensioners payable in the year.	(22,712)
<u>492,146</u>	Balance Carried Forward	<u>586,719</u>

d) Collection Fund Adjustment Account

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

The large difference for business rates arises from the additional business rates reliefs given to support particular business sectors during the pandemic which was not reflected in the business rates income estimated in January 2020 and paid across to the General Fund in 2020/21.

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
(5,516)	Balance Brought Forward	1,159
3,490	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	(1,230)
3,185	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	25,861
<u>1,159</u>	Balance Carried Forward	<u>25,790</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 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. For 2020/21 annual leave carried forward has been accrued for non-teaching as well as teaching staff because the amount of leave non-teaching staff could carry forward was increased significantly in response to the pandemic.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
	£000	£000
1,730	Balance Brought Forward	1,949
(1,730)	Settlement or cancellation of accrual made at the end of the preceding year	(1,949)
<u>1,949</u>	Amounts accrued at the end of the current year	<u>3,905</u>
<u>1,949</u>	Balance Carried Forward	<u>3,905</u>

f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1 April 2020 have been transferred into that account.

Further details on the deployment of DSG are provided in Note 28.

<u>2019/20</u>		<u>2020/21</u>
	£000	£000
0	Balance Brought Forward	0
	Transfer of the opening Dedicated Schools Grant deficit from earmarked revenue reserves	7,420
	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1,514
<u>0</u>	Balance Carried Forward	<u>8,934</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>2019/20</u>		<u>2020/21</u>
£000		£000
(31,850)	Net Surplus or (Deficit) on the Provision of Services	15,351
	Adjust net surplus or deficit on the provision of services for non cash movements	
43,647	Depreciation	47,455
32,363	Movement on assets charged to revenue	(38,524)
1,458	Amortisation	1,774
0	Adjustments for effective interest rates	0
982	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	188
(920)	Increase/(Decrease) in Interest Creditors	(269)
(10,674)	Increase/(Decrease) in Creditors	59,554
16	(Increase)/Decrease in Interest and Dividend Debtors	6
(8,659)	(Increase)/Decrease in Debtors	(5,921)
(18)	(Increase)/Decrease in Inventories	(184)
23,536	Pension Liability	32,793
(4,168)	Contributions to/(from) Provisions	(3,970)
9,217	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	13,575
15,187	Movement in Investment Property Values	6,309
(3,696)	Other Items	18
98,271		112,804
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(57,595)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(31,037)
(12,117)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,479)
0	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(78)
(160)	Allowable deduction arising from disposal	(66)
(69,872)		(35,660)
(3,451)	Net Cash Flows from Operating Activities	92,495

b) Operating Activities – Interest

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
801	Interest Received	1,860
(16,085)	Interest Paid	(14,902)

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Cash Flows from Investing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Cash Flows from Investing Activities	
(88,398)	Property, Plant and Equipment Purchased	(80,346)
(73,840)	Purchase of short term investments	(208,020)
12,312	Proceeds from the sale of property plant and equipment, investment property and intangible assets	4,545
87,440	Proceeds from short-term and long-term investments	208,020
40,133	Other Receipts from Investing Activities - Capital Grants & Contributions Received	45,148
<u>(22,353)</u>	Total Cash Flows from Investing Activities	<u>(30,653)</u>

d) Cash Flows from Financing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Cash Flows from Financing Activities	
124,000	Cash receipts of short and long term borrowing	40,000
2,597	Billing Authorities - Council Tax and NNDR adjustments	(22,371)
(93,833)	Repayment of Short-Term and Long-Term Borrowing	(75,642)
(2,874)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,039)
<u>29,890</u>	Total Cash Flows from Financing Activities	<u>(61,052)</u>

e) Make-up of Cash and Cash Equivalents

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Makeup of Cash and Cash Equivalents	
102	Cash and Bank Balances	102
31,115	Cash Investments - regarded as cash equivalents	30,028
(4,352)	Bank Overdraft	(2,475)
<u>26,865</u>		<u>27,655</u>

f) Changes in liabilities

	<u>1 April 2020</u>	<u>Cash Flows</u>	<u>Non-Cash</u> <u>Movements</u>	<u>31 March</u> <u>2021</u>
	£000	£000	£000	£000
Long-term borrowing	222,597	0	(8,750)	213,847
Short-term borrowing	55,214	(36,214)	9,417	28,417
Other deferred liabilities	13,826	(364)		13,462
Finance leases and PFI contracts	54,004	(3,039)		50,965
Total	345,641	(39,617)	667	306,691

NOTES TO THE CORE FINANCIAL STATEMENTS

24. Agency Services

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

The collection of council tax and business rates income is in substance an agency arrangement:

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

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%) (2019/20 Southampton City Council 74%, Government 25% and Hampshire Fire and Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

During 2020/21 the Council has made grant payments to businesses, adult social care providers and members of the community on behalf of the government. The Council is acting as an agent in making these disbursements and the income and expenditure to which they relate are not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council which has been disbursed is provided in Note 37.

25. Members' Allowances

The total of members' allowances paid in was £0.790M (2019/20 was £0.763M) as detailed in the table below.

	<u>31 March</u> <u>2020</u> £000	<u>31 March</u> <u>2021</u> £000
Salaries	607	623
Allowances	152	162
Expenses	4	5
Total	<u>763</u>	<u>790</u>

26. Officers' Remuneration

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

a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief

NOTES TO THE CORE FINANCIAL STATEMENTS

Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2019/20.

<u>Band £</u>	<u>Number of Employees</u>					
	<u>2019/20</u>			<u>2020/21</u>		
	<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 - 54,999	61	74	135	65	95	160
55,000 - 59,999	36	29	65	45	61	106
60,000 - 64,999	23	22	45	18	27	45
65,000 - 69,999	20	8	28	26	14	40
70,000 - 74,999	10	7	17	19	4	23
75,000 - 79,999	7	1	8	6	4	10
80,000 - 84,999	3	4	7	4	7	11
85,000 - 89,999	1	1	2	1	0	1
90,000 - 94,999	0	1	1	2	3	5
95,000 - 99,999	2	4	6	0	1	1
100,000 - 104,999	1	0	1	1	2	3
105,000 - 109,999	2	1	3	2	2	4
110,000 - 114,999	0	1	1	0	1	1
115,000 - 119,999	1	2	3	0	1	1
120,000 - 124,999	1	1	2	1	0	1
125,000 - 129,999	1	1	2	0	0	0
130,000 - 134,999	0	0	0	1	3	4
135,000 - 139,999	0	0	0	0	1	1
140,000 - 144,999	0	2	2	0	0	0
145,000 - 149,999	0	0	0	0	0	0
150,000 - 154,999	0	0	0	0	1	1
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0
170,000 - 174,999	0	1	1	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	1	1
	169	160	329	191	228	419

NOTES TO THE CORE FINANCIAL STATEMENTS

2020/21

Post Holder	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2020/21</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2020/21</u>
	£	£	£	£	£	£	£
Chief Executive - Sandy Hopkins	181,881				181,881	26,218	208,099
Executive Director - Business Services (Deputy Chief Executive) - Mike Harris	134,417				134,417	24,464	158,881
Executive Director - Communities, Culture & Homes - Mary D'Arcy	134,417	33			134,450	24,464	158,914
Executive Director - Place - Kate Martin	134,417				134,417	24,464	158,881
Executive Director - Wellbeing (Children & Learning) until 05/06/2020 - Hilary Brooks (see Note 1)	30,542		63,000		93,542	4,299	97,841
Executive Director - Wellbeing (Children & Learning) from 07/09/2020 - Robert Henderson	85,000				85,000	15,470	100,470
Executive Director - Wellbeing (Health & Adults DASS) until 28/03/2021 - Grainne Siggins (see Note 2)	150,962	3,508			154,470	26,087	180,557
Service Director Legal & Governance - Richard Ivory	118,848	81			118,929		118,929
Executive Director - Finance & Commercialisation - John Harrison	138,126				138,126		138,126
	1,108,610	3,622	63,000	-	1,175,232	145,466	1,320,698

Note 1

Between 06/06/2020 and 06/09/2020 the Wellbeing (Children & Learning) role was undertaken by Grainne Siggins, in addition to Wellbeing (Health & Adults DASS).

Note 2

Between 01/03/2021 and 31/03/2021 this role was undertaken by Guy van Dichele via an external company. Payment for this period was £22,080 excluding VAT.

Note 3

There were no bonuses paid.

Note 4

In 2020/21 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2019/20</u>	<u>Pensions contributions (see Note 6)</u>	<u>Total Remuneration including pension contributions 2019/20</u>
	£	£	£	£	£	£	£
Chief Executive - Sandy Hopkins	171,032				171,032	34,420	205,452
Chief Operations Officer until 31/10/2019 - Richard Crouch (see Note 1)	86,943		42,769		129,712	213,366	343,078
Executive Director - Business Services (Deputy Chief Executive) - Mike Harris	141,808	212			142,020	22,831	164,851
Executive Director - Communities, Culture & Homes from 23/03/2020 - Mary D'Arcy	3,165				3,165	510	3,675
Executive Director - Place from 29/02/2020 - Kate Martin	11,278				11,278	1,816	13,094
Executive Director - Wellbeing (Children & Learning) - Hilary Brooks	122,896	1,049			123,945	19,786	143,731
Executive Director - Wellbeing (Health & Adults DASS) from 06/01/2020 - Grainne Siggins (see Note 2)	30,946				30,946	4,982	35,928
Joint Director of Public Health until 22/11/2019 - Jason Horsley (see Note 3)	72,540				72,540	11,441	83,981
Service Director Legal & Governance - Richard Ivory	115,667	1,523			117,190		117,190
Executive Director - Finance & Commercialisation from 21/10/2019 - John Harrison (see Note 4)	58,376	8,773			67,149		67,149
	814,651	11,557	42,769	-	868,977	309,152	1,178,129

Note 1

Pension contributions include £199,368 in respect of loss of office.

Note 2

Between 01/04/2019 and 05/01/2020 the DASS role was undertaken by Stephanie Ramsey via NHS Southampton City CCG. Payment for this period was £5,000.

Note 3

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

Note 4

Between 01/04/2019 and 20/10/2019 this role was undertaken by John Harrison via an external company. Payment for this period was £133,340 excluding VAT.

Note 5

There were no bonuses paid.

Note 6

In 2019/20 the employer's contribution rate for the Local Government Pension Scheme was 16.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £0.4M (2019/20 £3.2M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

<u>Exit Package Cost Band</u> (including special payments)	<u>Number of compulsory Redundancies</u>		<u>Number of Other Departures agreed</u>		<u>Total Number of packages by Cost Band</u>		<u>Total Cost of Exit Packages in each Band</u>	
	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>
							£000	£000
£0-£20,000	11	4	43	14	54	18	457	170
£20,001-£40,000	2	1	17	4	19	5	541	136
£40,001-£60,000	1	0	9	2	10	2	498	0
£60,001-£80,000	0	0	5	0	5	0	346	137
£80,001-£100,000	0	0	2	0	2	0	187	0
£100,001-£150,000	0	0	3	0	3	0	375	0
£150,000+	0	0	4	0	4	0	834	0
Total	14	5	83	20	97	25	3,238	443

27. External Audit Costs

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

<u>2019/20</u>	<u>2020/21</u>
£000	£000
110 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	110
4 Fees payable to Ernst & Young in respect of grant claims and returns for the year	0
8 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	7
12 Fees payable to KPMG in respect of grant claims and returns for the year	10
134	127

28. Dedicated Schools Grants

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the Deployment of DSG Receivable for 2020/21 are as follows:

	<u>Central</u> <u>Expenditure</u> £000	<u>Individual</u> <u>Schools</u> <u>Budget</u> £000	<u>Total</u> £000
Final DSG for 2020/21 before Academy recoupment			199,614
Academy figure recouped for 2020/21			(63,905)
Total DSG after Academy Recoupment for 2020/21			135,709
Plus: Brought forward from 2019/20			(7,420)
Agreed initial budgeted distribution in 2020/21	6,911	121,378	128,289
In year adjustments		(268)	(268)
Final Budgeted Distribution for 2020/21	6,911	121,110	128,021
Less: Actual central expenditure	(15,376)		(15,376)
Less: Actual ISB deployed to schools		(121,579)	(121,579)
Carry Forward to 2021/22	(8,465)	(469)	(8,934)

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN). Plans have been made to repay the DSG overspend over the coming years in line with DfE guidance.

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities,
- Any joint arrangement with another public body,
- Any subsidiary, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council's pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Southampton Clinical Commissioning Group as disclosed in Note 39 Pooled Budgets; 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, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire & Rescue Authority are not considered to be related party

NOTES TO THE CORE FINANCIAL STATEMENTS

transactions, as the Collection Fund operates on an agency basis.

The city of Southampton is preparing to submit a bid to become the UK City of Culture 2025. Southampton City Council, along with other partners across the city, is helping to support the bid process. Southampton 2025 Trust is the organisation that will be leading on the submission of the bid. The Council provided £0.551M of grant funding and benefits-in-kind to support the bid process in 2020/21 (of which £0.067M was due to the Trust as at 31 March 2021).

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

- One councillor is a trustee of Yellow Door which received service payments of £0.460M from the Council in 2020/21. The councillor was not involved in the award of the contract.
- Four councillors had interests in organisations that received funding administered by the Council as part of the government's schemes to support businesses during the pandemic. The total amount awarded to these organisations was £0.086M and none of the councillors had any involvement in the award of the grants.

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2019/20</u>	<u>2020/21</u>
	£000	£000
Opening Capital Financing Requirement	496,753	508,710
<i>Capital Investment</i>		
Intangible assets	1,792	3,449
Property Plant & Equipment	87,552	73,385
Revenue Expenditure Funded from Capital under Statute	4,023	6,081
Heritage Assets	0	0
Investment Properties	0	1,263
Financial Instruments (Housing Improvement Loans)	3,721	(18)
<i>Sources of Finance</i>		
Capital Receipts	(8,205)	(16,829)
Government grants & other contributions	(36,192)	(32,918)
Use of Major Repairs Reserve	(19,597)	(19,056)
Direct Revenue Financing	(11,834)	(7,847)
Donated Asset	0	0
MRP	(9,303)	(9,907)
Closing Capital Financing Requirement	<u>508,710</u>	<u>506,313</u>
Increase in underlying need to borrow (unsupported by Government financial assistance)	21,260	7,510
MRP	(9,303)	(9,907)
Increase / (Decrease) in Capital Financing Requirement	<u>11,957</u>	<u>(2,397)</u>

31. Leases

a) Council as a Lessor

Operating Leases

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

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

The future minimum lease payments receivable under non-cancellable leases in future years and contingent rents for the year are:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>31 March</u> <u>2020</u> <u>£000</u>	<u>31 March</u> <u>2021</u> <u>£000</u>
Not later than one year	6,620	7,221
Later than one year and not later than five years	20,654	23,568
Later than five years	546,004	540,548
	<u>573,278</u>	<u>571,337</u>
Contingent Rents *	<u>1,352</u>	<u>275</u>

*Significant reduction due to Covid-19 (West Quay largely closed)

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

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

32. PFI and Similar Contracts

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

a) On Balance Sheet

PFI Schools

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

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

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

Hampshire Waste Contract

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

PFI Street Lighting

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

b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

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

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

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows. An adjustment has been made to the opening balances to reflect amendments to valuations made between the draft and final 2019/20 accounts, for which the PFI and Similar Contracts note was not updated.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	
Cost or Valuation				
At 1 April 2020	45,273	12,309	25,819	83,401
Adjustment to Opening Balance	(1,906)			(1,906)
	43,367	12,309	25,819	81,495
Additions	2			2
Disposals				0
Revaluations	(2,058)			(2,058)
Impairments				0
At 31 March 2021	41,311	12,309	25,819	79,439
Depreciation & Impairment				
At 1 April 2020	(1,906)	(1,774)	(5,602)	(9,282)
Adjustment to Opening Balance	1,906		34	1,940
	0	(1,774)	(5,568)	(7,342)
Depreciation Charge for the Year	(1,846)	(887)	(827)	(3,560)
Disposals				0
Revaluations	1,846			1,846
Impairments				0
At 31 March 2021	0	(2,661)	(6,395)	(9,056)
Balance Sheet amount at 31 March 2021	41,311	9,648	19,424	70,383
Balance Sheet amount at 31 March 2020	43,367	10,535	20,217	74,119

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

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	
Balance 1 April 2020	28,357	4,924	20,723	54,004
New Schemes in 2020/21	0	0	0	0
Repayments	(1,603)	(1,012)	(424)	(3,039)
Balance 31 March 2021	26,754	3,912	20,299	50,965
Due within 1 Year				
Balance 1 April 2020	1,603	1,012	424	3,039
Repayments	(1,603)	(1,012)	(424)	(3,039)
Due within 1 Year	1,839	1,107	500	3,446
Balance 31 March 2021	1,839	1,107	500	3,446
Long Term Creditor Balance 31 March 2021	24,915	2,805	19,799	47,519

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

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	<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>Contingent Rents</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,839	2,274	1,844	1,094	1,107	704	6,289	500	2,418	1,306	19,375
within 2 to 5 years	8,115	7,607	8,372	5,897	2,805	959	23,552	2,979	8,931	5,586	74,803
within 6 to 10 years	15,163	4,910	10,805	10,910				6,968	8,421	7,868	65,045
within 11 to 15 years	1,637	139	1,280	864				9,852	2,845	7,089	23,706
Balance 31 March 2021	26,754	14,930	22,301	18,765	3,912	1,663	29,841	20,299	22,615	21,849	182,929

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>Northlands</u>	<u>Oak Lodge</u>	<u>Total</u>
	£000	£000	£000
within 1 year	1,633	1,685	3,318
within 2 to 5 years	6,532	6,741	13,273
within 6 to 10 years	4,360	8,426	12,786
within 11 to 15 years		6,488	6,488
Balance 31 March 2021	12,525	23,340	35,865

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

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,603	2,410	1,733	1,128	6,874
Hampshire Waste	1,012	887	6,068		7,967
PFI Street Lighting	424	2,470	1,272		4,166
BUPA Care Homes					
Northlands			2,430		2,430
Oak Lodge			1,546		1,546
Totals	3,039	5,767	13,049	1,128	22,983

33. Pension Schemes Accounted for as Defined Contribution Schemes

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

In 2020/21 the Council paid £11.0M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2019/20 £8.3M and 20.4%). The contributions due to be paid in the next financial year are estimated to be £11.3M.

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

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

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

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

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

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

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 15 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

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

b) Transactions Relating to Post-employment Benefits

In 2020/21 the Council paid an employer's contribution of £29.2M (2019/20 £33.2M) into Hampshire County

NOTES TO THE CORE FINANCIAL STATEMENTS

Council's Pension Fund. The employer's rate for 2020/21 was 18.2% of employees' pay (2019/20 16.1% plus a fixed payment).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £22.863M. The weighted average duration of the defined benefit obligation for the scheme members is 20.8 years.

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost comprising:						
Current Service Cost	43,664	43,958	0	0	43,664	43,958
Past Service Cost	1,404	484	0	0	1,404	484
(Gain)/loss from settlements	0	0	0	0	0	0
Financing and Investment Income and Expenditure						
Expenditure:						
Net interest expense	9,836	10,322	812	741	10,648	11,063
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	54,904	54,764	812	741	55,716	55,505
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	49,640	(193,418)	0	0	49,640	(193,418)
Actuarial gains and losses arising on changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains and losses arising on changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other experience and actuarial adjustments	27,827	(15,858)	950	(468)	28,777	(16,326)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	9,094	59,575	(124)	2,205	8,970	61,780
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(54,904)	(54,764)	(812)	(741)	(55,716)	(55,505)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers Contributions payable to scheme Retirement benefits payable to pensioners	29,860	20,470	2,320	2,242	29,860	20,470

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2021 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 £586.7M (2019/20 £492.1M) 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. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Present value of the defined benefit obligation	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395
Fair value of plan assets	(850,423)	(1,062,676)	0	0	(850,423)	(1,062,676)
Sub-total	458,808	552,677	33,338	34,042	492,146	586,719
Other movements in the liability (asset)	0	0	0	0	0	0
Net liability arising from defined benefit obligation	458,808	552,677	33,338	34,042	492,146	586,719

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2019. 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 2021.

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Opening balance at 1 April	1,299,630	1,309,231	34,970	33,338	1,334,600	1,342,569
Current service cost	43,664	43,958	0	0	43,664	43,958
Interest cost	30,887	29,878	812	741	31,699	30,619
Contributions from scheme participants	7,407	8,012	0	0	7,407	8,012
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains/losses arising from changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other	27,827	(15,858)	950	(468)	28,777	(16,326)
Past service cost	1,404	484	0	0	1,404	484
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Liabilities extinguished on settlements (where relevant)	0	0	0	0	0	0
Closing balance at 31 March	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Opening fair value of scheme assets	874,960	850,423	0	0	874,960	850,423
Interest income	21,051	19,556	0	0	21,051	19,556
Remeasurement gain/(loss)	(49,640)	193,418	0	0	(49,640)	193,418
Contributions from employer	29,860	20,470	2,320	2,242	32,180	22,712
Contributions from employees into the scheme	7,407	8,012	0	0	7,407	8,012
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Other	0	0	0	0	0	0
Closing fair value of scheme assets	850,423	1,062,676	0	0	850,423	1,062,676

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e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Solutions, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.0	23.1	23.0	23.1
Women	25.5	25.5	25.5	25.5
Longevity at 65 for future pensioners:				
Men	24.7	24.8	-	-
Women	27.2	27.3	-	-
CPI inflation	2.0%	2.7%	2.0%	2.7%
Rate of increase in salaries	3.0%	3.7%	-	-
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%

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.

	2019/20	2019/20	2019/20	2020/21	2020/21	2020/21
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	44.10	8.60	52.70	49.40	7.60	57.00
Property	0.80	6.50	7.30	0.80	5.30	6.10
Government Bonds	21.80	-	21.80	17.30	-	17.30
Corporate Bonds	-	-	-	-	-	-
Cash	2.00	-	2.00	1.40	-	1.40
Other	14.10	2.10	16.20	15.90	2.30	18.20
Total assets	82.80	17.20	100.00	84.80	15.20	100.00

g) Sensitivity analysis

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	58,153	(56,537)
Rate of increase in salaries (increase or decrease by 1%)	3,231	(3,231)
Rate of increase in pensions (increase or decrease by 1%)	30,692	(30,692)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(33,922)	33,922

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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 Deputy Chief Executive and Director of Corporate Resources, The Castle, Winchester, Hampshire, SO23 8UB.

35. Contingent Liabilities/ Assets

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

Municipal Mutual Insurance – Scheme of Arrangement

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

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.347M has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.7M (2019/20 £0.35M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review. The increase in the reserve reflects a recommendation, following an external review of the self-insurance fund, that the MMI reserve increase from 50% to 75% of the amount subject to levy (less the 25% that has been paid already).

As at 31 March 2021, the Council's outstanding potential liability under the SoA stood at £1.390M (2019/20 £1.390M), less the £0.347M payment already made under the scheme.

36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2020/21 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationship:

PSP Southampton LLP

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

The aims and aspirations of the Partnership are as follows:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

A review of PSP indicates a joint venture, which would require the arrangement to be accounted for as an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2021 was £0.008M (2019/20 £0.453M), with the Council receiving £0.640M in distributed profits in 2020/21.

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

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

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

<u>2019/20</u>		<u>2020/21</u>
£000		£000
(29,245)	Balance Brought Forward	(12,418)
(7,106)	Amounts Received in Year	(20,728)
23,933	Amounts Applied to Finance Capital in year	6,848
<u>(12,418)</u>	Balance Carried forward	<u>(26,298)</u>

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> £000		<u>2020/21</u> £000 £000	
	Grants		
	Department for Education		
(5)	Framework Academies	0	
(14,043)	Basic Need Grant	0	
(4,271)	School Condition Allocation	(6,306)	
(1,416)	Schools Devolved Formula Grant	(470)	
(1,263)	Special Provision Allocation	(409)	
(3,605)	Capital Maintenance Grant	0	
0	Priority School Building Programme	(52)	
(2,389)	Other	(71)	
<u>(26,992)</u>			<u>(7,308)</u>
(4,515)	Ministry of Housing, Communities and Local Government		(6,043)
(21)	Heritage Lottery Fund		(9)
(18,360)	Department for Transport		(15,631)
(78)	Department for Culture, Media and Sport		(10)
(221)	Other		(110)
<u>(50,187)</u>			<u>(29,111)</u>
(7,407)	Contributions		(1,926)
<u>(57,594)</u>	Total		<u>(31,037)</u>
(54,495)	Credited to Capital Grants and Contributions CIES		(25,228)
(3,099)	Credited to Cost of Services		(5,809)
<u>(57,594)</u>	Total		<u>(31,037)</u>

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES. Grants in respect of COVID-19 are shown separately:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	General Government Grants	
	Revenue Support Grant	(10,964)
(1,895)	Social Care Support Grant	(6,696)
(7,335)	Section 31 Business Rates Grants	(4,915)
10,123	Business Rates Retention Tariff/Top-Up	(4,628)
(4,768)	MHCLG - New Homes Bonus Scheme	(4,098)
(1,171)	Housing Benefit and Council Tax Admin Grant	(1,181)
(1,361)	Other Grants	(1,521)
<u>(6,407)</u>		<u>(34,003)</u>
	<u>COVID-19</u>	
	Section 31 Business Rates Grants	(25,586)
(7,400)	COVID-19 Local Authority Support	(15,532)
	Compensation for Loss of Fees & Charges	(7,374)
	Local Tax Income Guarantee Scheme	(1,127)
	Other Grants	(354)
<u>(7,400)</u>		<u>(49,973)</u>
<u>(13,807)</u>		<u>(83,976)</u>
	Credited to Services	
(126,277)	Dedicated Schools Grant (DSG)	(135,442)
(70,672)	Housing Benefit Grant	(69,916)
(16,520)	Public Health Grant	(17,242)
(9,281)	Additional and Improved Better Care Fund	(10,390)
(9,011)	Pupil Premium	(9,573)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(2,978)	Teachers Pay and Pension Grants	(5,141)
	Homelessness and Rough Sleeping Grants	(1,534)
(1,544)	Universal Infant Free School Meals	(1,533)
(1,109)	Adult Social Care Winter Pressures Grant	
(10,356)	Other Grants	(9,478)
<u>(253,607)</u>		<u>(266,108)</u>
	<u>COVID-19</u>	
	Contain Outbreak Management Fund	(5,916)
	Council Tax Hardship Fund	(2,584)
	Test and Trace Service Grant	(1,571)
	Local Authority Discretionary Grant Funding to Businesses	(1,564)
	Pupil Premium Catch Up Funding	(1,228)
	Adult Social Care Infection Control Discretionary Grants	(951)
	Other Grants	(4,767)
<u>0</u>		<u>(18,581)</u>
<u>(253,607)</u>		<u>(284,689)</u>
	Not included in the Comprehensive Income and Expenditure Statement	
	<u>COVID-19</u>	
	Small Business and Retail, Hospitality and Leisure Grants	(37,550)
	Local Restrictions Support Grants to Businesses	(10,638)
	Closed Business Lockdown Grants	(7,251)
	Adult Social Care Infection Control Grants	(3,205)
	Other Grants	(970)
<u>0</u>		<u>(59,614)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The £59.6M of grants not included in the Comprehensive Income and Expenditure Statement are where the Council has acted as an agent of central government in disbursing funding to businesses, social care providers and individuals. In addition, there was £17.6M of business support grants within the Creditors balance as at 31 March 2021 that had been received but not disbursed to businesses as at that date (see Note 20 Creditors).

As part of the 75% Business Rates Retention pilot in 2019/20 the Council received no Revenue Support Grant and incurred a tariff charge of £10.1M to offset the additional business rates income retained.

38. Deferred Liabilities

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

<u>31 March</u> <u>2020</u> <u>£000</u>		<u>31 March</u> <u>2021</u> <u>£000</u>
14,190	Balance Brought Forward	13,826
(364)	Principal written down	(364)
<u>13,826</u>		<u>13,462</u>

39. Pooled Budgets

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

Better Care Southampton

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>					<u>2020/21</u>			
<u>LBHU</u>		<u>R&R</u>			<u>LBHU</u>		<u>R&R</u>	
£000	%	£000	%		£000	%	£000	%
				Better Care Fund				
				Funding - Contributions / Grants				
0		0		Brought Forward	0		0	
(1,274)	49%	(5,159)	31%	Southampton City Council	(1,187)	47%	(4,896)	25%
(1,326)	51%	(11,749)	69%	Southampton Clinical Commissioning Group	(1,336)	53%	(14,980)	75%
(2,600)		(16,908)			(2,523)		(19,876)	
2,600		16,908		Expenditure	2,523		19,876	
0		0		Carried Forward	0		0	

40. Trust and Other Funds

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

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	£000	£000	£000	
Aldridge Bequest	(3)	0	(235)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	0	0	(169)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	2	(44)	Works of art
LC Smith Bequest	0	0	(35)	Merchants Navy's Memorial maintenance help in Holyrood Church
Minor Trust Funds consisting of:				
Ida Bany Bequest	0	0	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(4)	Bitterne Park School special annual prizes
Southampton Archives Bequest	(5)	0	(5)	Preserve historical records
Trust Funds Total	(8)	2	(509)	
Wessex Slaughterhouse Board	0	0	(93)	Pensions to former employees
Total	(8)	2	(602)	

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from, the Council Tax payer and between the HRA and General Fund.

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

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

HRA Income and Expenditure Statement

<u>2019/20</u>		<u>2020/21</u>
£000	Expenditure	Notes £000
13,853	Repairs and maintenance	17,464
25,260	Supervision and management	27,336
4,774	Rents, rates, taxes and other charges	646
37,980	Depreciation, impairment and revaluation (gains) of non-current assets	(20,468)
74	Debt management costs	81
1,312	Movement in the allowance for bad debts	1 923
83,253	Total Expenditure	25,982
	Income	
(69,497)	Dwellings rent	(70,482)
(1,250)	Non-dwelling rents	(1,212)
(7,392)	Charges for services & facilities	(4,010)
(883)	Contributions towards expenditure	(871)
(79,022)	Total Income	(76,575)
	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement	
4,231		(50,593)
518	HRA services' share of Corporate and Democratic Core	518
4,749	Net Expenditure/ (Income) for HRA Services	(50,075)
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	
(3,830)	(Gain) or loss on the sale of HRA non-current assets	(1,640)
(28)	Capital Receipts not matched by Disposal of Assets	(58)
(456)	Investment Property Revaluation Movements	(57)
5,189	Interest payable and similar charges	4,779
(22)	Interest and investment income	0
402	Net interest on the net defined benefit liability	1,991
(542)	Capital grants and contributions receivable	(514)
5,462	(Surplus) or Deficit for the Year on HRA Services	(45,574)

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000	£000
(2,000)	Opening Balance		(2,000)
	Movement in Year		
5,462	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(45,574)	
(5,462)	Adjustments between accounting basis and funding basis under statute	45,574	
<u>0</u>	Transfer to / (from) reserves		<u>0</u>
<u>(2,000)</u>	Closing HRA Balance		<u>(2,000)</u>

Note to the Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000
	Analysis of adjustments between accounting basis and funding basis under statute	
(37,980)	Depreciation, impairment and revaluation (gains) of non-current assets	20,468
3,858	Gain or (loss) on the sale of HRA non-current assets	1,698
456	Impairment and revaluation of investment properties	57
(890)	HRA share of contribution to or from the pension reserve	(5,903)
19,597	Transfer to Major Repairs Reserve	21,553
542	Capital grants and contributions applied	514
8,955	Capital expenditure funded by the HRA	7,187
<u>(5,462)</u>	Net Adjustment	<u>45,574</u>

1. Council House Rents

At 31 March 2021, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 14.48% (31 March 2020 11.47%). The total arrears were £9.889M (31 March 2020 £8.131M). Rents written off during the year amounted to £0.377M (2019/20 £0.208M). The amount set aside for doubtful debts was £5.520M (31 March 2020 £4.980M). The arrears owed by tenants have increased by £1.76M (21.6%) since 2019/20.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

2. Housing Stock

As at the 31 March 2021, the Council housing stock was made up of the following types of property:

Number of Properties Held		
31 March 2020		31 March 2021
4,900	Houses	4,872
10,927	Flats	10,959
16	Bungalows	16
15,843		15,847

The Balance Sheet value of HRA assets was as follows:

Balance Sheet Value of HRA Assets		
2019/20 £000		2020/21 £000
Property Plant & Equipment		
634,904	Dwellings	681,654
8,586	Other Operational Property	8,347
38,464	Assets Under Construction	43,109
681,954		733,110
Other Property		
5,708	Investment Property	5,765
0	Intangibles	617
424	Surplus Assets	423
6,132		6,805
688,086		739,915

The vacant possession value of Council Dwellings at 1 April 2020 was £1,958M (£1,930M as at 1 April 2019) 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 2021.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. In 2019/20 there was £1.7M of impairment charges on the dwelling stock during the year which related to the properties purchased at market value and then impaired down to the basis of rents receivable on existing tenancies. There were no impairments in 2020/21.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u>	Depreciation	<u>2020/21</u>
£000		£000
19,539	Balance at 1 April	19,597
(19,539)	Depreciation written off in year	(19,597)
<u>19,597</u>	Depreciation during year	<u>21,553</u>
<u>19,597</u>	Balance as at 31 March	<u>21,553</u>

4. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2019/20</u>		<u>2020/21</u>
£000		£000
25,389	Housing Stock	18,528
15,659	Housing Stock Under Construction	14,818
0	Intangible assets	617
<u>41,048</u>	Total Capital Expenditure	<u>33,963</u>
 <u>Capital Expenditure Source of Finance</u> 		
£000		£000
7,955	Capital Receipts	7,206
188	Grants	0
19,597	Transfer from Major Repairs Reserves	19,056
354	Contributions	514
8,955	Direct Revenue Funding	7,187
3,999	Unsupported Borrowing	0
<u>41,048</u>	Total Financing	<u>33,963</u>

5. Capital Receipts

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

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

Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2020/21 the Council received £1.52M (2019/20 £4.95M) from right to buy sales that can be utilised on new build affordable housing projects.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u>	Sale of Assets	<u>2020/21</u>
£000		£000
10,356	Council Housing	4,368
28	Land, Buildings & Equipment	58
<u>10,384</u>		<u>4,426</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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 (business) rates and council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

<u>Income and Expenditure for the Year Ended 31 March 2021</u>			
<u>2019/20</u>		<u>2020/21</u>	
£000	Council Tax	Notes	£000
	Income		
(119,561)	Income due from Council Tax Payers		(118,825)
	Transfers (to)/ from the General Fund		
(199)	- Hardship Relief		(2,756)
(7)	- Transitional Relief		7
<u>(206)</u>			<u>(2,749)</u>
(119,767)			(121,574)
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
2,051	- Southampton City Council		(251)
244	- Hampshire Police Authority		(33)
90	- Hampshire Fire & Rescue Authority		(11)
<u>2,385</u>			<u>(295)</u>
(117,382)	Total Council Tax Income		(121,869)
	Expenditure		
	Precepts		
99,746	- Southampton City Council Precept		102,535
13,087	- Hampshire Police & Crime Commissioner Precept		13,844
4,398	- Hampshire Fire & Rescue Authority Precept		4,521
<u>117,231</u>		2	<u>120,900</u>
	Impairment of debts		
1,275	- Write offs		1,287
<u>2,984</u>	- Allowance for impairment		<u>(1,770)</u>
4,259			(483)
121,490	Total Council Tax Expenditure		120,417
4,108	Council Tax - Deficit / (Surplus) for the Year	4	(1,452)
(1,479)	Council Tax - Deficit / (Surplus) Brought Forward	4	2,629
2,629	Council Tax Deficit / (Surplus) Carried Forward	4	1,177
	Business Rates		
	Income		
(111,401)	Income Collectable from Business Ratepayers	3	(57,094)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
2,014	- Southampton City Council		940
1,053	- Central Government - MHCLG		(441)
31	- Hampshire Fire & Rescue Service		5
<u>3,098</u>			<u>504</u>
(108,303)	Total Business Rates Income		(56,590)
	Expenditure		
1,942	- Payment to MHCLG - Transitional Arrangements		1,554
27,195	- Payment to MHCLG - Business Rate Retention		52,917
80,497	- SCC Business Rates Retention		51,858
1,088	- HFRA Precept		1,058
0	- Interest on Overpayments		0
<u>310</u>	- Costs of Collection		<u>308</u>
111,032			107,695
	Impairment of debts/appeals		
1,484	- Write offs		111
(94)	- Allowance for impairment		(3)
<u>562</u>	- Appeals provision		<u>151</u>
1,952			259
112,984	Total Business Rates Expenditure		107,954
4,681	Business Rates (Surplus) / Deficit For the Year	4	51,364
(5,364)	Business Rates - Deficit / (Surplus) Brought Forward	4	(683)
(683)	Business Rates Deficit / (Surplus) Carried Forward	4	50,681
1,946	Total Collection Fund (Surplus) / Deficit	4	51,858

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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, normally in the subsequent financial year. To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years. Prior year elements remain to be met in full in 2021/22. For Southampton, Council Tax precepting bodies are the Police and Crime Commissioner for Hampshire and the Hampshire Fire & Rescue Authority (Hampshire and Isle of Wight Fire & Rescue Authority from 1 April 2021).

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2020/21 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire Fire & Rescue Authority (1%) (for 2019/20 the Council was in a 75% Business Rates Retention pilot: Southampton City Council 74%, Central Government 25% and HFRA 1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years.

2. Council Tax Base

Council Tax derives from charges raised 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 2020/21 was 67,215 (2019/20 66,693). The tax base for 2020/21 was calculated as follows:

Council Tax Base			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Disabled	36.0	5/9	20.0
Band A	22,017.7	6/9	14,678.5
Band B	27,428.0	7/9	21,332.9
Band C	19,336.5	8/9	17,188.0
Band D	8,172.7	9/9	8,172.7
Band E	2,730.8	11/9	3,337.6
Band F	1,271.7	13/9	1,836.9
Band G	385.0	15/9	641.7
Band H	3.5	18/9	7.0
	<u>81,381.9</u>		<u>67,215.3</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 67,215 (2019/20 66,693) and multiplying this by the standard Council Tax of £1,846.70 (2019/20 £1,804.69) gives a total estimated income from taxpayers of £124.1M (2019/20 £120.4M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted. Additional hardship discounts were awarded in 2020/21 to eligible working age council tax payers under the government's Council Tax Hardship Fund scheme.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 97.4%, giving a net Council Tax Base of 65,468. Multiplying this by the standard Council Tax of £1,846.70 gives the total precepts on the Collection Fund of £120.9M (64,959 times by £1,804.69 - £117.2M 2019/20).

3. Non-Domestic Rates (NDR)

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

The Council in 2020/21 estimated NDR income of approximately £105.8M (2019/20 £108.8M), £51.9M (2019/20 £80.5M) retained by the Council, £1.1M (2019/20 £1.1M) payable to Hampshire Fire & Rescue Authority) and £52.9M payable to Central Government (2018/19 £27.2M). This estimate was made prior to the government announcing significant additional rate reliefs to support particular business sectors during the pandemic. For Southampton £50.2M of these additional reliefs were awarded in 2020/21. The Rateable Value on 31 March 2021 was £266.3M (2019/20 £271.3M) and the Business Rate Multiplier for the year 49.9p (2019/20 49.1p) in the £, giving gross rates before reliefs of £132.9M (2019/20 £133.2M).

4. Collection Fund Balance

The total Collection Fund deficit carried forward for the year is £51.9M (2019/20 £1.9M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

	<u>In Year</u>			<u>Cumulative</u>		
	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>	<u>Council Tax</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Business Rates</u> <u>(Surplus)/</u> <u>Deficit</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Central Government		24,989	24,989		25,385	25,385
Southampton City Council	(1,231)	25,861	24,630	1,000	24,789	25,789
Hampshire Fire & Rescue Service	(169)	514	345	131	507	638
Hampshire Police Authority	(52)		(52)	46		46
Balance as at 31 March	(1,452)	51,364	49,912	1,177	50,681	51,858

GLOSSARY

1. Accruals

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

2. Budget

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

3. Capital Adjustment Account (CAA)

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

4. Capital Expenditure

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

5. Capital Receipts

The proceeds from the sale of capital assets.

6. Community Assets

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

7. Contingency

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

8. Council Tax

A local tax levied by a local authority on its citizens.

9. Creditor

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

10. Debtor

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

11. Depreciation

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

12. Effective Interest Rate (EIR)

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

13. Fair Value

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

GLOSSARY

14. Financial Assets

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

15. Finance Lease

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

16. Financial Instrument

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

17. Financial Liability

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

18. Financial Reporting Standard (FRS)

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

19. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

20. Government Grants

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

21. Heritage Assets

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

22. Housing Revenue Account

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

23. Impairment

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

24. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

25. International Financial Reporting Standards (IFRS's)

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

GLOSSARY

26. Long Term Investments

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

27. Materiality

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

28. Minimum Revenue Provision (MRP)

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

29. Money Market Funds

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

30. Non Domestic Rates Retention

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

31. Net Book Value

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

32. Net Expenditure

Total expenditure for a service less directly related income.

33. Net Realisable Value

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

34. Non-Operational Assets

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

35. Operating Leases

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

36. Operational Assets

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

37. Post Balance Sheet Events

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

38. Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the

GLOSSARY

end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

39. Property, Plant and Equipment

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

40. Public Works Loans Board (PWLB)

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

41. Revaluation Reserve

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

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

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

43. Revenue Expenditure / Income

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

44. Stock

Comprise the following categories:

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

45. Treasury Management

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

46. Useful Life

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

SCOPE OF RESPONSIBILITY

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

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

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

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

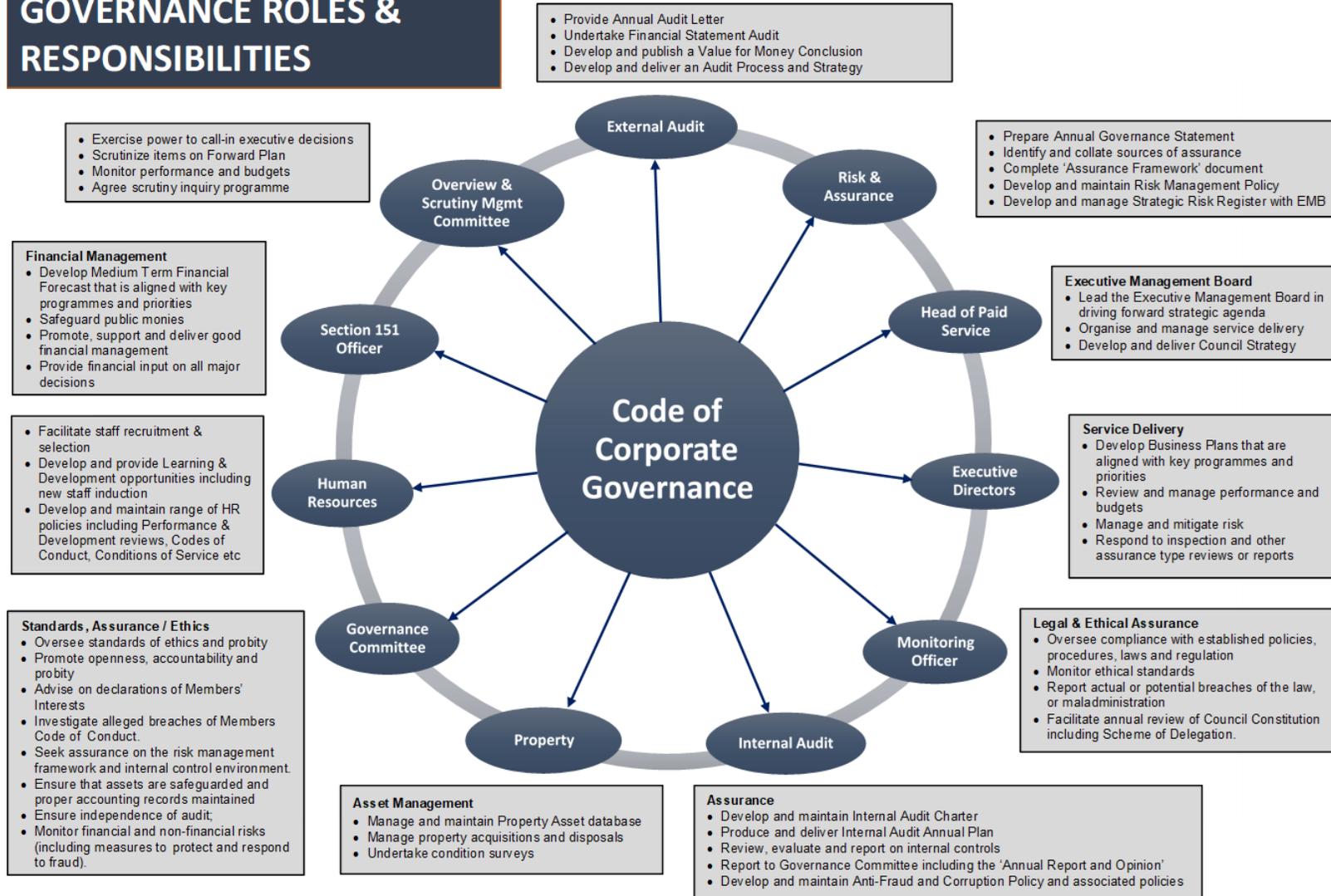
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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

The governance framework has been in place at the council for the year ended 31st March 2021 and up to the date of approval of the statement of accounts.

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GOVERNANCE ROLES & RESPONSIBILITIES



ANNUAL GOVERNANCE STATEMENT

The Governance Framework

The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

Impact of the Covid-19 Pandemic on Governance

NOTE: *As per the 2019-20 AGS, the 2020-21 AGS is also expected to include a section that summarises the 'impact of the Covid-19 Pandemic on Governance'. It is a requirement that the AGS is current at the time it is published noting that for 2020-21 the date for publication of audited accounts is 30th September 2021. By default, this section, which will be informed by the following CIPFA guidance/prompts, is not therefore able to be completed until later in the year.*

"An organisation's governance arrangements are likely to have been impacted by Covid-19. The list does not include all the sub-principles in the Framework but attempts to highlight key challenges:

- *Reduced capacity*
- *Competing priorities*
- *Constraints resulting from home / remote working*
- *Ensuring covid-19 restrictions are maintained e.g. social distancing*
- *Financial constraints*

As a result, gaps might have been created in an organisation's normal governance arrangements. Some changes may not be significant, especially where it has proved possible to adapt.

- *Are we aware of how Covid-19 has impacted our governance arrangements and our ability to fulfil the principles of good governance?*
- *What adaptations have been made? Are these effective?*
- *Providing local leadership on compliance with Covid regulations to maintain public trust and respect for the rule of law*
- *Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits. For example, supporting local public health and the local economy are both and challenging objectives that will have been difficult to balance. Medium and long term resource crucial planning aimed at developing a sustainable funding strategy. This is likely to have been particularly challenging this year.*
- *Ensuring continued effectiveness in the use of assets. Vision and strategy for asset management might have been affected by changed patterns of working impact on office accommodation. Also, town centre and commercial property potentially affected.*
- *Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing. This is likely to have taken greater prominence this year.*
- *Ensuring the adequacy of financial controls – especially where new services have been introduced or significantly changed in the year*
- *Gaining assurance on risk associated with service delivery by partners. This area might have been affected by impact of the pandemic on partners etc.*
- *Ensuring the effective delivery of local elections."*

ANNUAL GOVERNANCE STATEMENT

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

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

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

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

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

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

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

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

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and to use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' published on the council's website which explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to Members are dealt with under the Members' Code of Conduct.

The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the Council procures and in terms of the standards that the Council expects its suppliers, service providers and contractors to meet.

ANNUAL GOVERNANCE STATEMENT

B. Ensuring openness and comprehensive stakeholder engagement

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

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

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example, A public engagement exercise was undertaken with residents and stakeholders on the draft budget proposals between 16th December 2020 and 19th January 2021. The aim of this engagement exercise was to:

- Communicate clearly to residents and stakeholders the budget proposals for 2021/22;
- Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have; and
- Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way.

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect resident views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

In addition, four 'Covid-19 Residents Surveys' were undertaken in 2020 and were intended to provide both the council and other agencies across the city with an understanding of how residents were interpreting national guidance, how the pandemic was impacting residents' lives, and concerns that residents may have had during this time. This feedback was used to support the local response and to aid recovery efforts across the city.

The council has in place a 'People's Panel' which now has a membership of over 3,200 people and is open to anyone over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

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

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

The Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan is being delivered through detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



Progress in respect the commitments, initiatives and priorities is monitored, reviewed and updated on a six-monthly basis. The updated document is reviewed by both the council's Executive Management Board and Cabinet and is then published on the council's website. In addition, progress against the major Programmes and Projects within the Corporate Plan is also presented to the council's Governance Committee every 6 months.

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners and colleagues:

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



There are also other key strategies that reflect the vision and ambition of both the city and wider region including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level delivery of key outcomes and priorities are achieved through the Partnership for South Hampshire ('PFSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport.

PFSH is a collaborative partnership working arrangement between the twelve South Hampshire local authorities, Hampshire County Council plus the Southampton and Portsmouth Unitary Councils. PFSH is focused on supporting economic growth, delivery of housing, the infrastructure to achieve this development, in a sustainable manner to maintain and enhance the quality of the environment. PFSH engages with a range of other local organisations, stakeholders and Government to achieve these aims.

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth

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and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2021 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership composed of: Portsmouth, Southampton, the Isle of Wight and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders and other agencies to deliver transport infrastructure, networks and systems crucial to keep the region moving and generate economic growth, wealth and sustainability.

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

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of who, when and how decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and that confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

Due to Covid-19 all scrutiny meetings were held remotely with members of the public able to view meetings live via the Council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the discussion. In addition, scrutiny inquiries continue to consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members.

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

The council has in place a Workforce Strategy which is intended to enable the council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. The Workforce Strategy sets out a high-level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

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

The Workforce Strategy is a key document that sits alongside the both the Medium-Term Financial Forecast, the Wellbeing Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development and business planning, drive positive change and the delivery of agreed outcomes.

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves. New initiatives under this broad umbrella include a specific focus for 2021 onwards on Diversity and Inclusion with priorities set by staff workshops.

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

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management including receiving the draft Statement of Accounts. The Committee receives an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. This includes reference to the council's 'Risk Management Policy' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated and reviewed by the Executive Management Team on a quarterly basis and identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

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Risk management forms an important and integral part of the council's project management methodology with risk registers having been used extensively in respect of managing and supporting the council's response to Covid-19 and including supporting information decision taking.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Forecast ('MTFF') 2021/22 – 2024/25 provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFF helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic. The MTFF recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFF are to:

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

The MTFF enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22. Future budget updates to both Cabinet and Council will indicate how the processes adopted by the council ensure compliance with the standards set out in the Code.

As part its preparations for embedding enhanced standards of financial management the council undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however a few areas to further strengthen our processes were identified such as ensuring the senior management team (the Executive Management Board) were up to date with the work on financial resilience and how Southampton compares with other council's and that the Financial Procedure Rules were fully up to date. The necessary areas for improvement will also be tabled at the Executive Management Board for discussion and the plan monitored for its implementation.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government. The CFO (the

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Executive Director for Finance and Commercialisation and Section 151 Officer) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus, in particular, on current and future service costs including opportunities for income growth.

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

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

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The 'Council Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

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

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

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

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The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Governance Committee).

REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment: The Chief Internal Auditor's opinion for 2020-21 was that *****to be advised***** assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council.
- The Internal Audit Charter and delivery of the annual Internal Audit plan but noting that the Audit Plan of assignments was reduced compared to the previous year to reflect the level of resource lost during 2020-21 due to the impact of Covid and the temporary redeployment of some audit staff during this period. The reduction was based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the Council and its immediate priorities.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most representative and comprehensive oversight is obtained, with the individual returns being signed off by the relevant Executive Director.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The annual report on Risk Management and including the Risk Management Policy and Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the

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governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.

Planned Action: Heads of Service to work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as re workforce age profile, grading, structures etc. in order to identify key areas, activities or 'pinch points' where focussed attention is required.

Responsible Officer: Directorate Management Teams with the support of their respective HR Business Partner

Target for completion: End Q4 21-22 (with position reflected on the 21-22 AGS Self-Assessment returns)

2. Governance Issue

As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code in order to identify whether there were any significant gaps or areas for further development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.

Planned Action: The necessary areas for improvement to be tabled at the senior management team (Executive Management Board) for discussion and the plan monitored for its implementation.

Responsible Officer: Executive Director for Finance and Commercialisation and Section 151 Officer

Target for completion: End Q2 2021-22

3. Governance Issue

It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.

Planned Action: As part of the existing 'Performance and Development review' guidance, Human Resources to develop further information regarding what is deemed to be mandatory training.

An 'Ethics and Values' training module, which forms part of a new 'Collaborative Leadership Programme', has been developed. This module, which is targeted at all team leaders and managers below senior level, explores the council's organisational values and ethics and looks at key council policies and frameworks. Managers through interactions as part of the 'Performance Management

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and Development Framework and 'one to one' supervision meetings will be required to determine who should attend this training.

Responsible Officer: Human Resources / Directorate Management Teams

Target for completion: End Q1 21-22 re further guidance re mandatory training / End Q4 21-22 re Ethics Module training (with position reflected on the 21-22 AGS Self-Assessment returns)

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

Signed

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Sandy Hopkins

Chief Executive

On behalf of Southampton City Council

.....
Councillor Dan Fitzhenry

Leader of the Council

AUDITOR'S REPORT