



**SOUTHAMPTON**  
CITY COUNCIL

**2016/17**  
**FINANCIAL STATEMENTS**







# FINANCIAL STATEMENTS

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## PREFACE

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



Councillor Chaloner

Welcome to Southampton City Council's Statement of Accounts for 2016/17.

Southampton City Council has worked tirelessly throughout 2016/17 to bring investment to the city and improve the value for money for the services that we provide to our residents. Through Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council, we have developed our 'City Vision' where Southampton is a 'City of opportunity where everyone thrives'. In November 2016, city centre businesses voted in favour of the establishment of a Business Improvement District (BID) which will further enhance this collaborative working with businesses in the city.

2016/17 has seen major new developments in the city including the opening of Watermark West Quay, providing new shops, restaurants and bars and a state of the art new cinema complex.

Additionally, to achieve the priority outcome of people in Southampton leading safe, healthy, independent lives, the executive has committed to build Extra Care housing so that older people can live independent lives in a supported environment. The first of these schemes is at Erskine Court where the design and build is now underway.

A major targeted review of Looked After Children (LAC) has been undertaken to reduce the overall LAC numbers and to look at alternative placements. Initial results are showing this to have a significant reduction in LAC numbers.

We have continued to work with and listen to our partners, residents and staff. In November 2016, the Council undertook a pre-budget consultation with residents about their views on budget saving proposals. The feedback of this consultation was considered in setting the 2017/18 and future year's budgets.

The general fund revenue budget gap of £31.3M up to 2019/20 has been closed with a remaining funding gap of £8.6M in 2019/20. This is not only because of the reality of deficit reduction but also fundamental changes in the needs, behaviours and expectations of residents, customers, clients and communities.

The national and local issues surrounding Adult Social Care and Safeguarding of Children have impacted on the level of spend for these services in 2016/17 and will continue to impact on the Council's budget. This has been reflected in the Council's Medium Term Financial Strategy (MTFS). Rising demand in both adult and children's social care remains one of the most significant risks to the sustainability of the Council and its financial position.

During 2016/17 the Council fundamentally reviewed the basis for allocating its reducing financial resources and concentrated on developing the key outcomes for the City, focusing those resources on the identified outcomes and priorities through targeted Outcomes Based Planning and Budgeting.

Additionally the Council, for the first time, has set a two year balanced budget for 2017/18 and 2018/19 which gives the opportunity to further review the services it provides; how those services can be provided in the most effective and efficient way; seeking to work with partners; looking to commercialise services where possible; and identify income generating opportunities to further support the continued provision of services. This has also allowed the Council to look at areas of investment in services such as investment in the Street Scene and Cleaning Services.

## PREFACE

There are further external factors that will influence the continuing financial position of the Council such as the impact of Brexit. The Council's Medium Term Financial Strategy aims to consider the impact of local and national factors on the council's finances and details a number of assumptions made in considering the council's overall forecast financial position over the medium term. This strategy is regularly reviewed and updated in light of the changing economic environment.

The Council's approved capital programme totals £439.1M (2016/17 to 2020/21) and aims to bring jobs and investment to the city. In line with the Council's Outcomes and Priorities, provision has been made for:

- Schools improvement and expansion programme
- Improvements to roads, cycle ways and footpaths
- Improvements to Common Play Areas
- Further digital transformation
- Replacement of fleet vehicles to meet air quality standards
- Development of an energy company and an innovative business hub
- Improvements in the quality of existing accommodation and to provide more affordable homes.

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

## NARRATIVE STATEMENT

### Message from the Service Director of Finance & Commercialisation



Mel Creighton

In line with our vision to be a Finance Service that drives improvements in financial management, customer experience and operational excellence we aim to produce and publish these accounts in advance of the statutory deadline. The advantages of delivering the statements earlier are many:

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

The achievement of the early production of the statements is only possible by having sound financial management practices and a robust system of budget monitoring throughout the year. This has been demonstrated in 2016/17 with significant assurances being given following an audit of the Council's financial systems, processes and controls. This reflects the dedication of all finance staff, who have identified areas for step change improvements both in this financial year and future years, to continue on this improvement journey.

Looking forward into 2017/18, the Finance Service is facing a major restructure with the introduction of a fully integrated Finance Business Partner Service with the frontline services of the council to ensure that robust financial management is a part of every employees role and a key factor in the decision making process.

This financial year has also seen the Council set the first two year budget for 2017/18 and 2018/19 and a major shift to outcome based planning and budgeting. This has seen the Council close the financial gap of £31.3M up to 2019/20, with £8.6M remaining.

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

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

The sections contained within the Narrative Statement are:

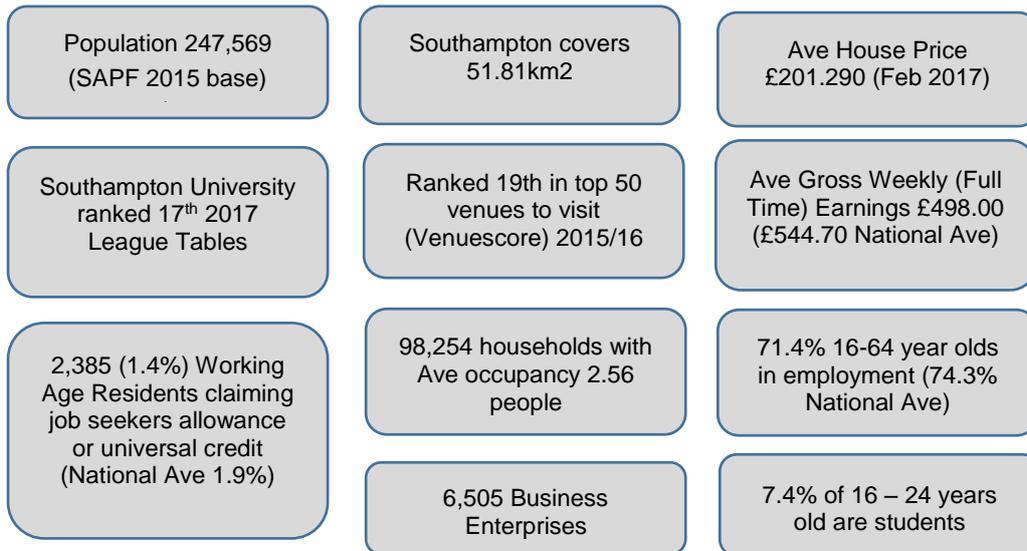
1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the financial statements
5. Accounting Issues & Developments

# NARRATIVE STATEMENT

## 1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix. The city vision is to “Create a city of opportunity where everyone thrives”. There are a number of factors which affect the council’s services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council’s financial position in both the short and medium term.

### Key Statistics



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

- We maintain over **416** miles of highways and **49** parks
- We run **6** libraries, **3** museums and support **5** community libraries
- We provide **16,300** council houses
- We recycle, compost and reuse **27,000** tonnes of waste every year
- We processed over **1,000** planning applications last year
- We provide long term support for over **3,000** adults
- We work with and support **75** schools in the city
- Over **15,000** children **under 5** use our city’s children’s centres and we look after approximately 600 children who are in our care

### Southampton City Strategy 2015-25

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

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

It also includes 4 cross cutting themes:

- Fostering city pride and community capacity
- Delivering whole place thinking and innovation
- Improving mental health
- Tackling poverty and inequality

# NARRATIVE STATEMENT

## **Southampton City Council Strategy 2016-2020**

Southampton City Council has published its strategy for 2016-2020, setting out how it will support the City Strategy and help make Southampton “a city of opportunity where everyone thrives”. The strategy sets out the four key outcomes that the council wants to achieve:

- Southampton is a city with strong, sustainable economic growth
- Children and young people in Southampton get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is a modern and attractive city where people are proud to live and work

These strategies help to shape the services the Council delivers, the next section describes how the Council operates to tackle these challenges.

## **2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL**

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

### **Political Structure**

Southampton City Council is split into 16 wards each represented by 3 councillors. The political structure in 2016/17 was as follows:

Labour 25

Conservative 19

Putting People First 3

Southampton Independents 1

### **Senior Leadership Team and Council Management Team**

Supporting the work of the elected members is the Senior Leadership Team (SLT) and the Council's Management Team (CMT). The current makeup of the Council's Senior Leadership and Management Teams are detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2016/17.

#### The Senior Leadership Team

Chief Executive – Dawn Baxendale

Chief Strategy Officer – Suki Sitaram

Chief Operating Officer – Richard Crouch

Service Director - Finance & Commercialisation – Mel Creighton

#### The Council Management Team

The Senior Leadership Team

Service Director - Transactions and Universal Services – Mitch Sanders

Service Director - Legal & Governance – Richard Ivory

Service Director - Intelligence, Insight & Communications – Emma Lewis

Service Director - Housing, Adults & Communities Paul Juan

Service Director - Children's & Families – Hillary Brooks

Service Director - Quality & Integration – Stephanie Ramsey

Service Director - Digital & Business Operations – Rob Harwood

Service Director - Growth – Mike Harris

# NARRATIVE STATEMENT

Service Director - Public Health – Jason Horsley

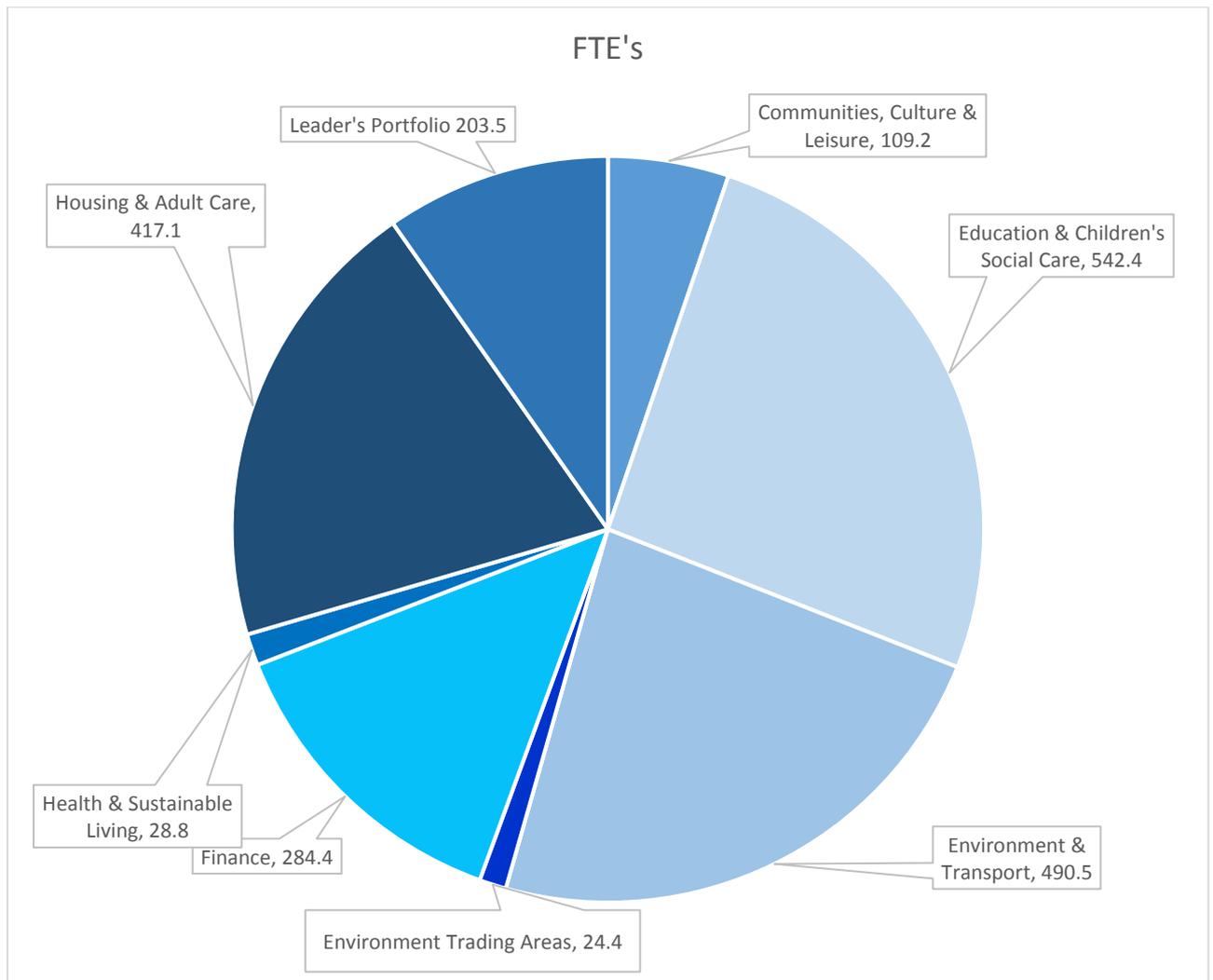
Service Director - HR & Organisational Development – Janet King

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

## **Staffing**

The Council employs circa 2,100 Full Time Equivalents to deliver these priorities.

The following chart shows how these support the Council's services (these figures exclude school employees).



# NARRATIVE STATEMENT

## The Council's Performance

Indicator	15/16	16/17	DoT	Change	Preferred Direction of Travel	Stat Neighbour (Ave)	Variance	Eng. (Ave)	Variance	Comment
Working-age client group - main benefit claimants (Out of Work Benefits)	8.40%	n/a	▼	-0.60%	▼	11.10%	-2.70%	8.60%	-0.20%	Proportion of resident population aged 16-64 estimates. To Feb 2015 and to Feb 2016
Job seeker	1.50%	1.30%	▼	-0.20%	▼	2.50%	-1.20%	1.80%	-0.50%	
Disability Living Allowance	0.90%	n/a	▼	-0.10%	▼	1.00%	-0.10%	1.00%	-0.10%	To Feb 2015 and to Feb 2016
Rate per 1000 head of 10 - 17 year old population receiving a custodial sentence	0.81	0.6	▼	-0.7	▼	0.47	0.18	0.26	0.35	
Children leaving care for permanence (Special Guardianship Order (SGO) or Adoption) (%)	46.3%	50.7%	▲	4.33%	▲	31.06%	19.62%	27%	23.77%	Statistical Neighbour Benchmarking not available - England BM 15/16
First time entrants into Youth Justice System (per 100,000 population of 10-17 year olds)	486	387	▼	-47	▼	460	-73	357	30	
Pupils in Early Years Foundation Phase achieving good level of development (%)	69.80%	n/a	▲	4.30%	▲	67.14%	2.66%	66.30%	3.50%	Annual data 16/17 not available until September
Percentage of 16-17 year olds NEET or whose activity is not known	8.8%	7.6%	▼	-1.20%	▼	n/a	n/a	6.70%	0.9%	Provisional 2016/17 benchmarking
Young People who are Not in Education, Employment or Training (NEET) % (OLD MEASURE)	4.80%	n/a	▶	0.00%	▼	6.10%	1.30%	4.60%	-0.20%	Only 14/15 Benchmarking available for England & Statistical Neighbours
ESA and incapacity benefits	3.30%	n/a	▲	0.10%	▼	4.30%	-1.00%	3.30%	0.00%	2016/17 data not available till August
Carers Allowance	0.90%	n/a	▲	0.20%	▼	1.20%	-0.30%	1.10%	-0.20%	2016/17 data not available till August

## NARRATIVE STATEMENT

### 3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The financial year began with the setting of the budget on 10<sup>th</sup> February 2016, when a balanced budget was set that included savings of £29.9M. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting. A revised budget was then approved by Council on 15<sup>th</sup> February 2017 and represented the expected outturn position for 2016/17 at that time.

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

The table below shows the Councils outturn position and variances from the current budget.

#### General Fund Revenue Account Outturn Position 2016/17

	<b>Working Budget 2016/17</b>	<b>Portfolio Outturn 2016/17</b>	<b>Outturn Variance 2016/17</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Portfolios</b>			
Communities, Culture & Leisure	5,841.9	5,572.2	269.7 F
Education & Children's Social Care	43,911.3	43,542.4	368.9 F
Environment & Transport	22,051.2	21,141.4	909.8 F
Finance	35,415.2	34,596.5	818.7 F
Health & Adult Social Care	65,726.6	71,185.5	5,458.9 A
Housing & Sustainable Living	(4,853.5)	(5,347.0)	493.5 F
Leader's Portfolio	12,912.7	10,669.7	2,243.0 F
Transformation	(1,894.1)	1,416.5	3,310.6 A
<b>Sub-total for Portfolios</b>	<b>179,111.3</b>	<b>182,777.2</b>	<b>3,665.9 A</b>
<b>Levies &amp; Contributions</b>	632.2	692.9	60.7 A
<b>Capital Asset Management</b>	1,759.6	(586.0)	2,345.6 F
<b>Other Expenditure &amp; Income</b>	4,064.3	(229.6)	4,293.9 F
<b>Net Revenue Expenditure</b>	<b>185,567.4</b>	<b>182,654.6</b>	<b>2,912.8 F</b>
<b>Funded By:</b>			
Addition to / (Draw From) Balances	(3,890.0)	(3,890.0)	0.0
Transfer From Provisions/Reserves In Year	(4,260.6)	(4,260.8)	0.2 F
Council Tax	(81,010.2)	(81,010.9)	0.7 F
Non-Specific Government Grants & Other Funding	(41,806.8)	(42,973.1)	1,166.3 F
Business Rates	(50,715.2)	(50,804.7)	89.5 F
Council Tax Collection Fund (Surplus) / Deficit	(873.4)	(873.4)	0.0 F
Business Rates Collection Fund (Surplus)/Deficit	(3,011.2)	(3,011.2)	0.0 A
<b>Total Funding</b>	<b>(185,567.4)</b>	<b>(186,824.1)</b>	<b>1,256.7 F</b>
<b>Transfer to Reserves - Year End Surplus</b>	0.0	4,169.5	4,169.5 A
<b>(SURPLUS)/DEFICIT</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0 A</b>

## NARRATIVE STATEMENT

Since the Council set its budget in February 2016, the economic outlook has remained challenging. In-year action was taken in response to the ongoing financial pressures facing the Council including:

- It should be noted that where a forecast overspend had been identified, the relevant Service Director developed an action plan to detail the measures and interventions that would be undertaken to manage the pressure.
- In addition to the action plans, 'intensive care' meetings are held with the Senior Leadership Team to discuss key issues and actions with the service's. It is expected that these meetings and the requirement for action plans will continue in to 2017/18, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.
- This has led to significant improvement in the overall outturn position.

The outturn for the council was a contribution to general reserves of £4.17M.

The significant pressure has been in relation to Health and Adult Social care due in part to increasing demand and complexity of required services and non-achievement of required savings in 2016/17 as a result. As part of setting the budget for 2017/18 and future years, these specific pressures have been recognised and further funding has been allocated to mitigate them.

Where a 2016/17 pressure has been identified as having a longer term impact the relevant assumptions have been made and included within the updated MTFS position.

The portfolio position has been offset by:

- Release of the council's risk fund £3.47M – held to meet potential demand and inflationary pressures identified in year
- An increase in forecast Government grants £1.16M due to additional ESG grant (number of academy conversions lower than anticipated) and an assumption that some grants (not announced when setting the budget in February 2016) would be reduced in line with other grants has not materialised
- Lower than anticipated costs of borrowing due to ongoing low interest rates and the use of internal balances has reduced the need for external borrowing.

### Expenditure and Funding Analysis

It should be noted that a new statement is now included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 19 and further in note 8.

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

	<b>Working Budget 2016/17 £000</b>	<b>Portfolio Outturn 2016/17 £000</b>	<b>Outturn Variance £000</b>
Salaries, Wages & Other Employee Costs	96,972.3	95,917.4	1,054.9 F
Premises Costs	13,682.1	9,810.7	3,871.4 F
Transportation Costs	3,993.5	4,138.4	144.9 A
Supplies & Services	56,600.8	68,760.7	12,159.9 A
Internal Charges	4,841.6	6,366.7	1,525.1 A
Other Direct Costs (Includes School Allocations)	257,106.9	254,651.0	2,455.9 F
<b>Total Expenditure</b>	<b>433,197.2</b>	<b>439,644.9</b>	<b>6,447.7 A</b>
Internal Income	(23,898.0)	(21,476.4)	2,421.6 A
Fees, Charges & Rents	(46,625.4)	(50,077.2)	3,451.8 F
Grants / Contributions	(183,562.5)	(185,314.1)	1,751.6 F
<b>Total Net Expenditure</b>	<b>179,111.3</b>	<b>182,777.2</b>	<b>3,665.9 A</b>

This analysis excludes the HRA, Housing Benefit and Environment and Trading Areas when compared to the EFA.

## 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 90 to 95.

### HRA Outturn Position 2016/17

The table below shows the HRA outturn position

	Working Budget 2016/17 £000	Portfolio Outturn 2016/17 £000	Outturn Variance 2016/17 £000
Dwelling Rents	72,521	72,497	24 A
Other Rents	1,185	1,163	22 A
<b>Total Rental Income</b>	<b>73,706</b>	<b>73,660</b>	<b>46 A</b>
Service Charge Income from Tenants	1,795	1,601	194 A
Service Charge Income from Leaseholders	614	943	329 F
Interest Received	30	28	2 A
<b>Total Income</b>	<b>76,145</b>	<b>76,232</b>	<b>87 F</b>
Responsive Repairs	8,342	11,433	3,091 A
Programmed Repairs	4,994	4,268	726 F
<b>Total Repairs</b>	<b>13,336</b>	<b>15,701</b>	<b>2,365 A</b>
Rents Payable	100	110	10 A
Debt Management	70	48	22 F
Supervision & Management	20,892	20,623	269 F
Capital Financing Charges	12,076	10,733	1,343 F
Depreciation	19,893	18,894	999 F
Direct Revenue Financing	8,772	9,123	351 A
<b>Total Expenditure</b>	<b>75,139</b>	<b>75,232</b>	<b>93 A</b>
<b>(Surplus) / Deficit for Year</b>	<b>(1,006)</b>	<b>(1,000)</b>	<b>6 A</b>

## NARRATIVE STATEMENT

### CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £153.43M in total for the General Fund and HRA. Final capital spend for the year was £32.82M less than the budget at £120.61M, including slippage/rephasing of £32.32M. 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	2016/17 Budget £M	2016/17 Expenditure £M	Variance £M
E&T - City Services	1.38	1.15	(0.23)
Communities, Culture & Leisure	1.08	0.92	(0.16)
Education & Children's Social Care	12.13	8.81	(3.32)
Finance	0.36	0.17	(0.19)
Health & Adult Social Care	0.63	0.18	(0.45)
Housing & Sustainability	3.77	1.76	(2.01)
Leaders	56.05	42.09	(13.96)
Transformation	3.71	2.39	(1.32)
Transport	15.88	11.95	(3.93)
<b>Total General Fund Programme</b>	<b>94.99</b>	<b>69.41</b>	<b>(25.58)</b>
Housing Revenue Account	58.44	51.20	(7.24)
<b>Total Capital Programme</b>	<b>153.43</b>	<b>120.61</b>	<b>(32.82)</b>

The final spend for the year was £32.82M lower than the budget. Of this, £32.32M was due to slippage/rephasing on schemes, which will be spent in 2017/18 predominantly on the following schemes:

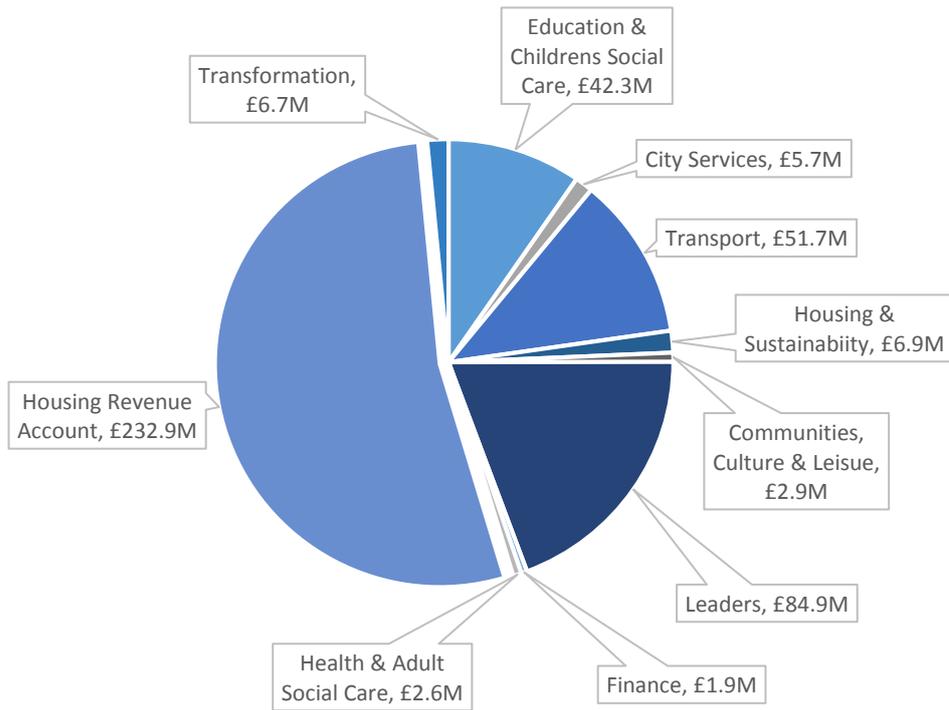
Highway Programmes	£2.65M
Integrated Transport	£0.54M
Springwell Primary Expansion	£0.96M
Affordable Housing Projects	£0.93M
Estate Regeneration and New Build	£0.78M
Safe Wind & Weather Tight (HRA)	£4.14M
Warm & Energy Efficient (HRA)	£0.52M
Well Maintained Communal Facilities (HRA)	£1.14M
Cultural Quarter	£3.34M
Property Investment Fund	£10.31M
Transformation Capital Programme	£1.31M

### 5 year Capital Programme

The current approved 5 year capital programme which totals £439.23M, including approvals under delegated powers (£0.16M), and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends in 2017/18.

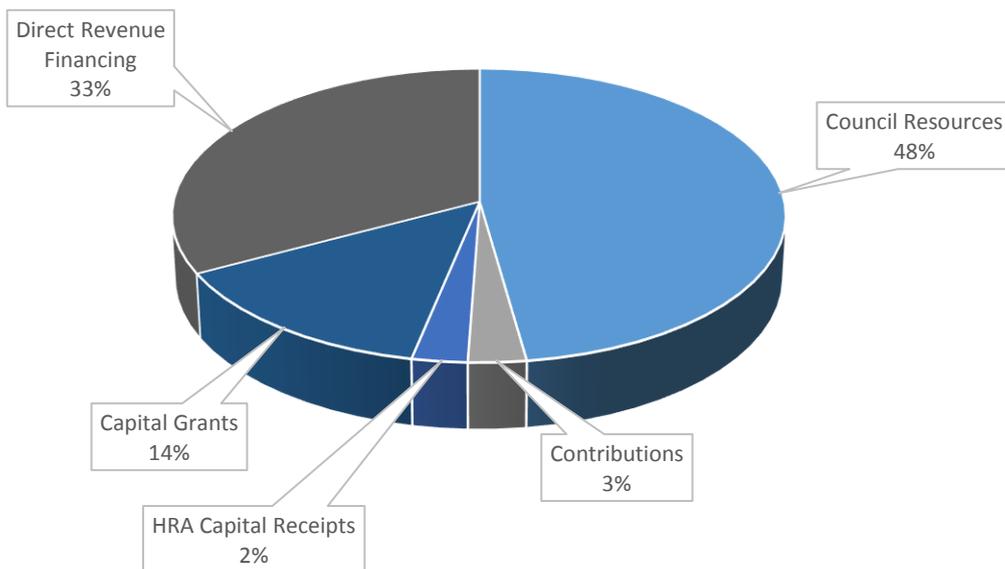
# NARRATIVE STATEMENT

Capital Expenditure - 5 Year Programme 2016/17 - 2020/21



Funded by:

Capital Funding - 5 Year Programme 2016/17 - 2020/21



# NARRATIVE STATEMENT

## TREASURY MANAGEMENT

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

The current investment strategy is to continue to diversify into more secure and/or higher yielding asset classes and move away from the increasing risk and low returns gained from short term unsecured bank investments. In 2016/17 the Council has continued to diversify into corporate and covered bonds. In doing so, we have been able to improve our overall level of investment returns whilst lower our risk exposure.

Further in support of the need to generate additional revenue income streams, additional investment has been made in the CCLA property investment fund which is generating returns of 4.46% against our nominal investment of £17M.

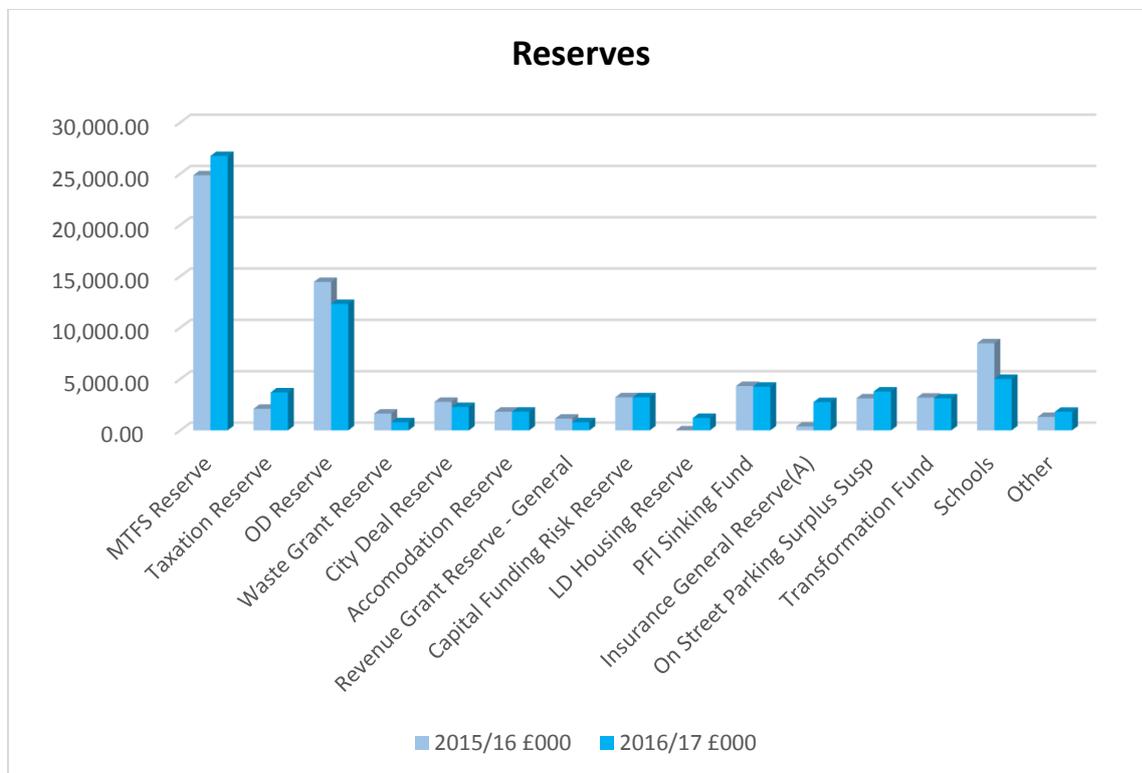
## RESERVES AND BALANCES

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

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

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2016/17 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk (detailed in the following section) resulting in the rationalisation of reserves and provisions, where possible, and in some cases additional funding being set aside.

The graph below highlights the changes in the value of reserves between the 31<sup>st</sup> March 2016 and 31<sup>st</sup> March 2017.



The Council's approved minimum level for the General Fund Balance was £5.5M. Following an assessment of risk by the Chief Financial Officer, it was recommended that this should increase to £11.3M. In reviewing the level of reserves and balances as part of closing the 2016/17 accounts, it was possible to increase the

## NARRATIVE STATEMENT

balance to the recommended level in line with the coming year's budget recommendation. Therefore the balance as at 31 March 2017 was £11.3M.

### PRINCIPAL RISKS AND UNCERTAINTY

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

The assessment of 'impact' reflects a blended score that takes into account service delivery, finance and reputation and is based on a range of scores from 'Extreme to Minor'. The assessment of likelihood, or probability, is based on a range of scores from 'Almost Certain to Very Unlikely'.

No	Strategic Risk - Description	Likelihood	Impact
1	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.	Possible	Major
2	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.	Unlikely	Major
3	Failure to safeguard vulnerable adults resulting in a preventable incident.	Possible	Extreme
4	Failure to safeguard children resulting in a preventable incident.	Possible	Extreme
5	Failure to meet our health and safety responsibilities.	Possible	Significant
6	Failure to ensure the Council's information is held and protected in line with Information Governance policies and procedures.	Possible	Significant
7	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation of welfare reforms.	Possible	Significant
8	Service partners and/or suppliers may not be sufficiently flexible or aligned with the council's future service delivery requirements and operating model.	Possible	Significant
9	Failure to ensure an effective and sustainable adult social care system.	Likely	Major
10	Failure to ensure an effective and sustainable children's social care system.	Likely	Major

# NARRATIVE STATEMENT

## 4. AN EXPLANATION OF THE FINANCIAL STATEMENTS

The Financial Statements bring together all the financial activities of the Council for the year and its financial position as at the 31<sup>st</sup> March 2017. They detail both revenue and capital elements for both the General Fund and the HRA.

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

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

<b>Core Financial Statements:</b>	Page
<b>Responsibilities for the Financial Statements</b>	18
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Expenditure and Funding Analysis (Not a Core Financial Statement)</b>	19
This is a new financial performance statement that is being introduced from 2016/17. Its purpose 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.	
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	20
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.	
<b>Movement in Reserves Statement (MiRS)</b>	21
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.	
<b>Balance Sheet</b>	22
The Balance Sheet shows the value as at the 31 <sup>st</sup> March 2016 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.	
<b>Cash Flow Statement</b>	23
This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as;	
<ul style="list-style-type: none"><li>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</li></ul>	

## NARRATIVE STATEMENT

- 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.

<b>Notes to the Core Financial Statements (including Accounting Policies)</b>	24 – 88
<b>Housing Revenue Account (HRA)</b>	89 – 94
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
<b>Collection Fund</b>	95 – 98
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
<b>Glossary</b>	99 – 102
	103 - 113
<b>Auditor's Report and Certificate</b>	114

## 5. ACCOUNTING ISSUES AND DEVELOPMENTS

### Pension Fund Deficit

The deficit on the Pension Fund, as at 31 March 2017, has increased from £366.8MM to £425.0M see note 34 for further details.

### Capita Southampton Ltd (CSL)

During 2015/16 the agreement with the Council's strategic partner, Capita, was reset and this came into effect from 1<sup>st</sup> April 2016. As a result, the HR Advisory Service and Property Services were reintegrated into the council in 2016/17.

Additionally, the majority of the services provided by Capita, are now provided to the Council through a special purpose vehicle, Capital Southampton Ltd, which enables greater transparency of costs for services provided to the council.

### PSP Southampton LLP

In September 2014, the Council entered into a limited liability partnership (LLP) with PSP Facilitating Ltd to enable 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.

There are currently several opportunities being considered by the partnership with one in progress. The expected outcome of this development is to generate an overall increase in the asset value of properties held by the Council and to generate ongoing enhanced revenue stream to the Council.

### Modular Housing Factory

Southampton City Council have made a successful bid to the Solent LEP for match funding in the development and set up of a Modular Housing Factory in the city. An in principle award has been made of £3M.

The proposal is to invest in setting up an off-site manufacturing facility in Southampton with the initial aim of meeting the development and regeneration needs of Southampton City Council and partner housing associations but with the potential to expand quickly across the Solent region and potentially beyond.

Co-investment in the sum of £6 million, the form of equity split equally between the Solent LEP and Southampton City Council, is proposed with further start up investment being sought from the Homes & Communities Agency (HCA) through the Accelerating Construction Programme. Further investment by other local authorities to support business expansion will be considered once the project is established.

This facility will:

## **NARRATIVE STATEMENT**

- Help with the delivery of better quality housing at a faster pace
- Have the potential to help address social issues such as fuel poverty through the provision of better insulated homes that require less energy to heat
- Support Southampton City Council's Strategy by ensuring that the city has strong and sustainable growth and people in Southampton live, safe, healthy, independent lives. It will also help meet the Executive Commitment to deliver 365 Affordable Homes a year

# RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

## 1. The Council's Responsibilities

The Council is required to:

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

## 2. The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts the CFO has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- 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 Financial Statements present the true and fair position of Southampton City Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Signed **M Creighton**  
Section 151 Officer

Date 31<sup>st</sup> July 2017

## 4. Approval of the Accounts

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

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

Date 31<sup>st</sup> July 2017

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Expenditure and Funding Analysis

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

<u>2015/16</u>				<u>2016/17</u>		
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
5,367	3,566	8,933	Communities, Culture & Leisure	5,572	2,952	8,524
46,011	5,831	51,842	Education & Children's Social Care	43,542	6,637	50,179
22,048	3,499	25,547	Environment & Transport	21,141	3,021	24,162
10,013	1,908	11,921	Leader's Portfolio	10,670	4,966	15,636
67,651	2,126	69,777	Housing & Adult Care	71,186	595	71,781
(4,512)	523	(3,989)	Health & Sustainable Living	(5,347)	782	(4,565)
37,189	(4,287)	32,902	Finance Portfolio	34,596	(6,427)	28,169
640	951	1,591	Transformation Projects	1,416	126	1,542
(17,747)	(373)	(18,120)	Housing Revenue Account (HRA)	(20,828)	(346)	(21,174)
(767)	0	(767)	Housing Benefit	(645)	(1)	(646)
106	(985)	(879)	Environment & Trading Areas	(19)	(695)	(714)
	2,245	2,245	Other Income & Expenditure		3,903	3,903
			Exceptional Items			
	58,735	58,735	Impairment on General Fund Assets		707	707
	(53,865)	(53,865)	Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings		(39,363)	(39,363)
<b>165,999</b>	<b>19,874</b>	<b>185,873</b>	<b>Cost of Services</b>	<b>161,284</b>	<b>(23,143)</b>	<b>138,141</b>
<b>(168,482)</b>	<b>(16,319)</b>	<b>(184,801)</b>	<b>Other Income &amp; Expenditure</b>	<b>(161,931)</b>	<b>(23,844)</b>	<b>(185,775)</b>
<b>(2,483)</b>	<b>3,555</b>	<b>1,072</b>	<b>(Surplus)/Deficit</b>	<b>(647)</b>	<b>(46,987)</b>	<b>(47,634)</b>
(82,749)			Opening General Fund Balance	(85,231)		
(2,000)			Opening HRA Balance	(2,000)		
(2,482)			Less/Plus Deficit/(Surplus) on Genral Fund	353		
0			Less/Plus Deficit/(Surplus) on HRA	(1,000)		
(85,231)			Closing General Fund Balance	(84,878)		
(2,000)			Closing HRA Balance	(3,000)		
<b>(87,231)</b>			<b>Closing General Fund &amp; HRA Balance</b>	<b>(87,878)</b>		

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

<u>2015/16</u> <u>Restatement</u>				<u>2016/17</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
<u>£000</u>	<u>£000</u>	<u>£000</u>		<u>Notes</u>	<u>£000</u>	<u>£000</u>	
12,129	(3,196)	8,933	Communities, Culture & Leisure		12,067	(3,543)	8,524
204,169	(152,327)	51,842	Education & Children's Social Care		202,787	(152,608)	50,179
53,385	(27,838)	25,547	Environment & Transport		50,277	(26,115)	24,162
19,048	(7,127)	11,921	Leader's Portfolio		23,021	(7,385)	15,636
92,776	(22,999)	69,777	Housing & Adult Care		94,265	(22,484)	71,781
14,982	(18,971)	(3,989)	Health & Sustainable Living		15,431	(19,996)	(4,565)
35,488	(2,586)	32,902	Finance Portfolio		30,806	(2,637)	28,169
1,601	(10)	1,591	Transformation Projects		1,542		1,542
63,280	(81,400)	(18,120)	Housing Revenue Account (HRA)		59,719	(80,893)	(21,174)
117,519	(118,286)	(767)	Housing Benefit		111,701	(112,347)	(646)
4,313	(5,192)	(879)	Environment & Trading Areas		4,197	(4,911)	(714)
2,804	(559)	2,245	Other Income & Expenditure		3,903		3,903
			<b>Exceptional Items</b>	6			
58,735		58,735	Impairment on General Fund Assets		707		707
(53,865)		(53,865)	Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings		(39,363)		(39,363)
<b>626,364</b>	<b>(440,491)</b>	<b>185,873</b>	<b>Cost of Services</b>	8	<b>571,060</b>	<b>(432,919)</b>	<b>138,141</b>
		(4,930)	Loss/ (Gain) on the disposal of Non Current Assets	12c			(6,938)
		566	Contributions to Other Local Public Bodies				693
		1,218	Contributions of Housing Capital Receipts to Government Pool				2,034
		<b>(3,146)</b>	<b>Other Operating Expenditure</b>				<b>(4,211)</b>
		319	Income and Expenditure in relation to Investment Properties and changes in their fair value	14			(9,709)
		15,171	Interest payable and similar charges	11			14,579
		(1,269)	Interest and Investment Income	11			(1,083)
		12,160	Net interest on the defined benefit liability (asset)	34b			12,050
		<b>26,381</b>	<b>Financing, and Investment Income &amp; Expenditure</b>				<b>15,837</b>
		(79,514)	Council Tax Income				(83,343)
		(51,484)	Non - Domestic Rates Redistribution	38			(51,304)
		(54,680)	General Government Grants	37c			(44,675)
		(22,358)	Capital Grants and Contributions	37b			(18,079)
		<b>(208,036)</b>	<b>Taxation and Non-Specific Grant Income</b>				<b>(197,401)</b>
		<b>1,072</b>	<b>Deficit/ (Surplus) on the Provision of Services</b>				<b>(47,634)</b>
		(83,327)	Deficit/ (Surplus) on revaluation of non current assets	22a			(1,399)
		32,642	Impairment losses/ (gains) on non-current assets charged to the revaluation reserve	22a			1,617
		(300)	Deficit/ (Surplus) on revaluation of available for sale financial assets	17d			884
		(36,070)	Remeasurements of the net defined benefit liability (asset)	34g			45,230
		<b>(87,055)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>46,332</b>
		<b>(85,983)</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(1,302)</b>

# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants & Contributions Unapplied	Total Usable Reserve	Unusable Reserves	Total Authority Reserve
	£000	£000	£000	£000's	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	(12,806)	(72,425)	(2,000)	0	(13,596)	0	(10,593)	(111,420)	(759,563)	(870,983)
<b>Movement in Reserves during 2016/17</b>										
Surplus on provision of services (accounting basis)	12,475		(60,109)					(47,634)		(47,634)
Other comprehensive Income and Expenditure								0	46,332	46,332
<b>Total Comprehensive Income and Expenditure</b>	<b>12,475</b>	<b>0</b>	<b>(60,109)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(47,634)</b>	<b>46,332</b>	<b>(1,302)</b>
Adjustments between accounting basis and funding basis under regulations (note 10)	(12,121)		59,108		(14,221)		(1,235)	31,531	(31,531)	0
<b>Net Increase before Transfers to Earmarked Reserves</b>	<b>354</b>	<b>0</b>	<b>(1,001)</b>	<b>0</b>	<b>(14,221)</b>	<b>0</b>	<b>(1,235)</b>	<b>(16,103)</b>	<b>14,801</b>	<b>(1,302)</b>
Transfers to / (from) earmarked reserves (note 9)	1,136	(1,137)	1					0		0
<b>(Increase) / Decrease in Year</b>	<b>1,490</b>	<b>(1,137)</b>	<b>(1,000)</b>	<b>0</b>	<b>(14,221)</b>	<b>0</b>	<b>(1,235)</b>	<b>(16,103)</b>	<b>14,801</b>	<b>(1,302)</b>
Balance at 31 March 2017	(11,316)	(73,562)	(3,000)	0	(27,817)	0	(11,828)	(127,523)	(744,762)	(872,285)

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

# THE FINANCIAL STATEMENTS

## Balance Sheet

<u>31 March 2016</u>		<u>31 March 2017</u>
£000		Notes £000
1,261,296	Property, Plant & Equipment	12 1,331,438
190,103	Heritage Assets	13 190,246
95,179	Investment Properties	14 120,824
4,529	Intangible Assets	15 6,290
23,531	Long Term Investments	17b 28,099
1,617	Long Term Debtors	18a 75
<b>1,576,255</b>	<b>Non Current Assets</b>	<b>1,676,972</b>
25,986	Short Term Investments	17b 8,089
2,639	Assets held for Sale	16 2,364
703	Stock (Inventories)	669
43,185	Short Term Debtors	18b 40,786
39,188	Cash & Cash Equivalents	19 22,999
<b>111,701</b>	<b>Current Assets</b>	<b>74,907</b>
(3,224)	Cash & Cash Equivalents	19 (4,152)
(364)	Deferred Liabilities	17b (364)
(29,985)	Short Term Borrowing	17b (51,876)
(76,623)	Short Term Creditors	20 (76,927)
(7,972)	Provisions	21 (7,187)
<b>(118,168)</b>	<b>Current Liabilities</b>	<b>(140,506)</b>
(62,263)	Long Term Creditors	17b (60,422)
(9,449)	Provisions	21 (6,619)
(220,300)	Long Term Borrowing	17b (208,795)
	Other Long Term Liabilities	
(14,917)	- Deferred Liabilities	17b (14,553)
(8)	- Deferred Capital Balances	(8)
(25,028)	- Cap. Grants & Conds Receipts in Advance	37a (23,731)
(366,840)	- Pension Fund Liability	34c (424,960)
<b>(698,805)</b>	<b>Long Term Liabilities</b>	<b>(739,088)</b>
<b>870,983</b>	<b>Net Assets</b>	<b>872,285</b>
	<b>Useable Reserves</b>	
(13,596)	Useable Capital Receipts Reserve	10 (27,817)
(10,593)	Cap. Grants & Conds Unapplied	10 (11,828)
(72,425)	Earmarked Revenue Reserves	9 (73,562)
(12,806)	General Fund Balance	10 (11,316)
(2,000)	Housing Revenue Account Balance	10 (3,000)
<b>(111,420)</b>		<b>(127,523)</b>
	<b>Unuseable Reserves</b>	
(344,272)	Revaluation Reserves	22a (338,442)
(1,259)	Available-for-Sale Financial Instruments Reserve	(375)
(774,153)	Capital Adjustment Account	22b (826,932)
346	Financial Instruments Adjustment Account	299
366,840	Pension Reserve	22c 424,960
(5,675)	Collection Fund Adjustment Account	22d (6,324)
1,372	Accumulated Absences Account	22e 2,052
(2,762)	Deferred Capital Receipts Reserve	22f 0
<b>(759,563)</b>		<b>(744,762)</b>
<b>(870,983)</b>		<b>(872,285)</b>

## THE FINANCIAL STATEMENTS

### Cash Flow Statement

<u>2015/16</u> £000		Notes	<u>2016/17</u> £000
(1,072)	Net surplus or (deficit) on the provision of services		47,634
70,742	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	11,155
<u>(42,798)</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>(51,219)</u>
<b>26,872</b>	<b>Net Cash Flows From Operating Activities</b>		<b>7,570</b>
(32,902)	Net Cash flows from Investing Activities	23 c)	(44,439)
(5,262)	Net Cash flows from Financing Activities	23 d)	<u>19,752</u>
<b>(11,292)</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>(17,117)</b>
47,256	Cash and cash equivalents at the beginning of the reporting period	23 e)	35,964
<b><u>35,964</u></b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e)	<b><u>18,847</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) Basis of Preparation

The Accounts and Audit Regulations 2015 require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2016/17, these proper accounting practices principally comprise:

- the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code)
- Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (Code Update)
- the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146, as amended) (the 2003 Regs)

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

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

### b) Adjustments Between Accounting Basis and Funding Basis

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

Expense	Accounting Basis in CIES	Funding Basis in MiRS	Adjustment Account
Property, Plant, and Equipment	Depreciation and revaluation/impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Intangible Assets	Amortisation and impairment	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Investment Properties	Movements in fair value	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account
Revenue Expenditure Funded from Capital under Statute	Expenditure incurred in 2016/17	Revenue provision to cover historical cost determined in accordance with the 2003 Regs	Capital Adjustment Account

## NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Grants and Contributions	Grants that became unconditional in 2016/17 or were received in 2016/17 without conditions	No credit	Capital Grants Unapplied Reserve (amounts unapplied at 31 March 2017) Capital Adjustment Account (other amounts)
Non-Current Asset Disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital Adjustment Account (carrying amount) Capital Receipts Reserve (sale proceeds and costs of disposal) Deferred Capital Receipts Reserve (where sale proceeds have yet to be received)
Financial Instruments	Premiums payable and discounts receivable on the early repayment of borrowing in 2016/17  Losses on soft loans granted in 2016/17 and interest receivable in 2016/17 on an amortised cost basis	Deferred debits and credits of premiums and discounts from earlier years in accordance with the 2003 Regs  Interest due to be received on soft loans in 2016/17	Financial Instruments Adjustment Account
Pensions Costs	Movements in pensions assets and liabilities (see Policy )	Employer's pensions contributions payable and direct payments made by the Council to pensioners for 2016/17	Pensions Reserve
Council Tax	Accrued income from 2016/17 bills	[Demand on the Collection Fund/precept] for 2016/17 plus [recovery of estimated deficit/share of estimated surplus] for 2015/16	Collection Fund Adjustment Account
Business Rates	Accrued income from 2016/17 bills	Budgeted income receivable from the Collection Fund for 2016/17 plus [recovery of estimated deficit/share of estimated surplus] for 2015/16	Collection Fund Adjustment Account
Holiday Pay	Projected cost of untaken leave entitlements at 31 March 2017	No charge	Accumulated Absences Adjustment Account

### c) Acquisitions and Discontinued Operations

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

### d) Cash and Cash Equivalents

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

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

### e) Exceptional Items

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### f) 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.

There are no prior period adjustments to report in 2016/17.

### g) Employee Benefits

#### Benefits Payable During Employment

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

#### Termination Benefits

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

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

#### Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Hampshire County Council.
- In addition, there are a minimal number of employees that are part of the NHS Pension Scheme administered by the employing authority reporting to the NHS.

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

However, the arrangements for the teachers' scheme and the NHS Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

As part of the Council's Strategic Services Partnership contract, Capita has admitted body status within the Hampshire Pension Fund. The staff that transferred to Capita are treated as being part of Southampton City Council for accounting and reporting purposes in respect of pensions. As part of the agreement between the Council and Capita, all (or nearly all) pension risks, and assets and liabilities lie with the Council. Capita is

## NOTES TO THE CORE FINANCIAL STATEMENTS

under a legal obligation to pay the employee and employer contributions to Hampshire Pension Fund direct. The Council then reimburses the full cost to Capita of the employer's contributions they have incurred.

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

- Assets and Liabilities of the fund will not be split between the Council and Capita, so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the balance sheet will include the total liability in respect of both Council employees and employees now transferred to Capita.
- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both Council employees and employees transferred to Capita.
- The Pension Interest Costs in the Income & Expenditure Account will be reflective of the Council's share, including the Capita element.
- The SCC actual pension fund contributions for 2016/17 will be excluded from SCC's accounts, and will be a reconciling item in the MiRS.
- The accounts will therefore reflect the full IAS19 position of the Council including the Capita element.

The existing Capita Admission Agreement with the Hampshire Pension Fund will cease on 1st April 2017 with the Capita (SCC) staff transferring as follows:

- Property Services will transfer back to SCC
- The majority of LGPS to a new entity, Capita Southampton Limited (CSL)
- Residual LGPS staff to a new entity (Capita Business Services Limited (CBSL))

From 1 April 2017, there 2 new admission agreements, one for CSL, one for CBSL:

In addition:

- The new entity will participate in the fund as stand-alone employers and will not be permitted to join the Schedule Body Group (SBG)
- Responsibility for funding the pension benefits within the fund of staff who are active members and whose roles are transferred under TUPE to the new company will transfer to the new company
- SCC will guarantee the liabilities of the entities, including an agreement to subsume the new companies liabilities' upon their exit from the fund

### The Local Government Pension Scheme

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Service Cost comprising:

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

### Remeasurements comprising:

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

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

The requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Council by £425.0M in 2016/17 (£366.8M in 2015/16).

The total liability of £425.0M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see Note 34 (Defined Benefit Pension Schemes).

### h) Events After the Balance Sheet date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### i) Financial instruments

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

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

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

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

### Available-for-Sale Assets

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

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### j) Government Grants and Other Contributions

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

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

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

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

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

#### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) 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.

#### Heritage Assets

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

- **Historic Buildings and Ancient Monuments** – The Council has a number of Historic Buildings and Structures including:
  - The Bargate
  - Town Walls and various Vaults

### Valuation

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

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

### k) Interests in Companies and Other Entities

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

In 2016/17, whilst the relationship with Capita Southampton Ltd (CSL) may require group accounts, there were no material transactions that would require the Council to produce Group Accounts.

### l) Investment Property

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

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

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

### m) Joint Arrangements

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

- A Joint Venture
- A Joint Operation

#### Joint Venture

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Joint Operation

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

### n) 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.

#### Finance Leases

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

#### Operating Leases

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

### o) 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.

It should be noted that there is a requirement for Traded Services to achieve full cost recovery, charging the full cost of their services to other parts of the Council including Capital Schemes. Following a review of charges to capital, it has been identified that an element of general overhead has been charged which is not permissible under the CIPFA Code of Practice.

The 2016/17 position has been corrected prior to production of the financial statements.

A review of the accounts back to 2007/08 has been undertaken to establish the materiality level of the potential change. Following this review the potential change is not considered material, as will not impact on the users understanding of the accounts, has no impact on the overall General Fund and HRA balances, and the majority of assets have been revalued. If necessary any adjustments will be made for the production of the 2017/18 accounts.

### p) 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

### Impairment

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

### Disposals and Non-Current Assets Held for Sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have changed to allow local authorities to retain receipts that exceed a predetermined set level. This predetermined level is known as the share cap. Once the share cap has been achieved any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts that fall within the share cap are still subject to updated pooling arrangements that return a predetermined proportion to the Government.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### q) Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

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

### r) 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Contingent Assets

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

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

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

### s) Reserves

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

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

### t) 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.

### u) Value Added Tax (VAT)

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

### v) Strategic Services Partnership with Capita

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### w) Collection Fund

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

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

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

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

### x) Schools

The Code specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated. This is further detailed in note 3 Accounting for Schools – Balance Sheet Recognition.

### y) Rounding Convention

Unless otherwise stated the convention used in this document is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables.

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the new or amended standards within the 2017/18 Code. There are no new standards in the 2017/18 Code which are likely to have a material impact on the accounts.

## 3. Critical Judgements in Applying Accounting Policies

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

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

- **Heritage Assets** – The Council has reclassified Property, Plant and Equipment as Heritage Assets where the assets were held and maintained principally for their contribution to knowledge and culture. In addition, the Council has identified and included a number of collections, principally held at museums, as heritage assets.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

There are currently six types of schools:

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

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

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

VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

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

The table below illustrates the number and type of schools:

Status as at 31 March 2017	Infant	Junior	Primary	Secondary	Other	Total
Academies	5	4	8	4	1	22
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	4	4	18	5	5	36
Foundation Trust	1		5	2	1	9
Free Schools					1	1
<b>Grand Total</b>	<b>10</b>	<b>8</b>	<b>37</b>	<b>12</b>	<b>8</b>	<b>75</b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

disposal for nil consideration. As at 31 March 2017, the Council held £2.6M assets on its balance sheet in respect of a School where approval to transfer has been received but the transfer had not occurred.

- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision made. The accounting treatment for finance and operating leases is significantly different, (Note 1 o Accounting Policies), and could have a significant effect on the Financial Statements.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Future Funding for Local Government** – There is a high degree of uncertainty about future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Interests in Other Entities** – The Council has a number of interests in other entities which fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However the Council’s interests in aggregate are 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 or a contingent liability should be made. The judgements are based on the degree of certainty around the results of pending legal actions.
- **Doubtful Debts Allowances** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.
- **NDR Appeals Provision** – The Council has made judgements about the level of the NDR appeals that it needs to provide for. These judgements are based on historical levels of refunds as a % of the Gross rate yield after reliefs per the NNDR 1 return (7.3%).

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on	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 £1M if the useful lives were reduced by one year.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	repairs and maintenance, bringing into doubt the useful lives assigned to assets.	
<b>Arrears</b>	At 31 March 2017, the Council had a balance of sundry debtors of £13.5M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, is £1.1M, which represents 8% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 40% of the balance, it would require an additional £4.3M to set aside as an allowance.
<b>NDR Appeals Provision</b>	Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are now liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2017. The estimate is a percentage of the Gross rate yield after reliefs per the NNDR1 (based on prior years refund levels, and a review of the current Valuation Office Agency (VOA) list of appeal outstanding and their analysis of previous appeals)	An increase or reduction of the appeals provision estimate of 1.0%, would increase/(reduce) the year end NDR appeals provision by £1.1M and (£1.1M) respectively.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2017 and the projected service cost for the year ending 31 March 2017 is set out below.  In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).
<b>Funded LGPS Benefits</b>		
<b>Discount rate assumption</b>		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,136.15	1,180.60
% change of present value of total obligation	-1.9%	1.9%
Projected service cost (£M's)	30.38	32.25
Approximate % change in projected service cost	-2.9%	3.0%
<b>Rate of general increase in salaries</b>		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,162.39	1,153.97
% change of present value of total obligation	0.4%	-0.4%
Projected service cost (£M's)	31.30	31.30
Approximate % change in projected service cost	0.0%	0.0%

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,176.33	1,140.30
% change of present value of total obligation	1.6%	-1.5%
Projected service cost (£M's)	32.25	30.38
Approximate % change in projected service cost	3.0%	-2.9%
<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,191.76	1,124.63
% change of present value of total obligation	2.9%	-2.9%
Projected service cost (£M's)	32.40	30.20
Approximate % change in projected service cost	3.5%	-3.5%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

### 5. Prior Period Adjustments

The Code of Practice 2016-17 introduced new formats and reporting requirements following the Telling the Story review of the presentation of local authority financial statements. The Comprehensive Income and Expenditure Statement (CIES) Cost of Services has therefore been restated from a Sercop basis to Southampton City Council's internal reporting basis i.e. how expenditure is allocated for decision making purposes between the council's services areas.

### 6. Exceptional Items

#### Revaluation of Property Plant and Equipment

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

### 7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on 24<sup>nd</sup> July 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 8. 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

Adjustments for capital purposes – this column adding in depreciation and impairment and revaluation gains and losses in the service line, and for:

- **Other operating expenditure** – adjusts for capital disposal with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those

## NOTES TO THE CORE FINANCIAL STATEMENTS

receivable in the year to those receivable without conditions or for which conditions were satisfied through the year. The Taxation and Non-Specific Grant Income line is credited with 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 Financing and investment income and expenditure** - the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- **The charge under Taxation and non-specific grant income and expenditure** – represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Adjustments between Funding and Accounting Basis 2016/17					
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change of the Pension Adjustments £000	Other MiRS Differences	* Other Movements £000	Total Adjustments £000
Communities, Culture & Leisure	2,356	168		428	2,952
Education & Children's Social Care	8,933	843	680	(3,819)	6,637
Environment & Transport	8,006	746		(5,731)	3,021
Leader's Portfolio	1,675	456		2,835	4,966
Housing & Adult Care	261	667		(333)	595
Health & Sustainable Living	818	41		(77)	782
Finance Portfolio	213	(2,239)		(4,401)	(6,427)
Transformation Projects	19	25		82	126
Housing Revenue Account (HRA)		94		(440)	(346)
Housing Benefit				(1)	(1)
Environment & Trading Areas	1,196	39		(1,930)	(695)
Other Income & Expenditure				3,903	3,903
<b>Exceptional Items</b>					0
Impairment on General Fund Assets	707				707
Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings	(39,363)				(39,363)
<b>Cost of Services</b>	<b>(15,179)</b>	<b>840</b>	<b>680</b>	<b>(9,484)</b>	<b>(23,143)</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(39,493)</b>	<b>12,050</b>	<b>(5,885)</b>	<b>9,484</b>	<b>(23,844)</b>
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>(54,672)</b>	<b>12,890</b>	<b>(5,205)</b>	<b>0</b>	<b>(46,987)</b>

\* Other movements include such items as Investment Income and Expenditure, and non-controllable recharges

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change of the Pension Adjustments £000	Other MiRS Differences £000	Other movements £000	Total Adjustments £000
Communities, Culture & Leisure	2,496	195		875	3,566
Education & Children's Social Care	9,028	893	(913)	(3,178)	5,830
Environment & Transport	7,741	844		(5,086)	3,499
Leader's Portfolio	1,685	408		(184)	1,909
Housing & Adult Care	286	787		1,052	2,125
Health & Sustainable Living	228	60		235	523
Finance Portfolio	60	(3,222)		(1,125)	(4,287)
Transformation Projects	2	35		914	951
Housing Revenue Account (HRA)		6		(379)	(373)
Environment & Trading Areas	1,080	44		(2,108)	(984)
Other Income & Expenditure				2,245	2,245
<b>Exceptional Items</b>					
Impairment on General Fund Assets	58,735				58,735
Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings	(53,865)				(53,865)
<b>Cost of Services</b>	<b>27,476</b>	<b>50</b>	<b>(913)</b>	<b>(6,739)</b>	<b>19,874</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(30,379)	12,160	(4,839)	6,739	(16,319)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	(2,903)	12,210	(5,752)	0	3,555

### b) Segmental Income Cost of Service

	Government Grants £000	Fees, Charges & Other Service Income £000	Total £000
Communities, Culture & Leisure	(1,527)	(2,016)	(3,543)
Education & Children's Social Care	(149,130)	(3,478)	(152,608)
Environment & Transport	(3,871)	(22,244)	(26,115)
Leader's Portfolio	(5,133)	(2,252)	(7,385)
Housing & Adult Care	(13,322)	(9,162)	(22,484)
Health & Sustainable living	(19,161)	(835)	(19,996)
Finance Portfolio	(647)	(1,990)	(2,637)
Housing Revenue Account (HRA)		(80,893)	(80,893)
Housing Benefits	(107,789)	(4,558)	(112,347)
Environment & Trading Areas		(4,911)	(4,911)
	<b>(300,580)</b>	<b>(132,339)</b>	<b>(432,919)</b>

### c) Expenditure by Nature Cost of Services

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Employee Benefits Expenses £000	Depreciation, amortisation, impairment £000	Other service expenses £000	Total £000
Communities, Culture & Leisure	3,486	2,356	6,225	12,067
Education & Children's Social Care	83,708	8,924	110,155	202,787
Environment & Transport	15,211	8,006	27,060	50,277
Leader's Portfolio	11,182	1,675	10,164	23,021
Housing & Adult Care	15,479	261	78,525	94,265
Health & Sustainable living	1,244	169	14,018	15,431
Finance	9,172	213	21,421	30,806
Transformation Projects	1,283	19	240	1,542
Housing Revenue Account (HRA)	15,905	20,469	23,345	59,719
Housing Benefits			111,701	111,701
Environment & Trading Areas	807	1,196	2,194	4,197
Other Expenditure & Income (NCoS)			3,903	3,903
Impairment on General Fund Assets		707		707
Housing Revenue Account (HRA)-impairment loss/(gain) on dwellings		(39,363)		(39,363)
	<b>157,477</b>	<b>4,632</b>	<b>408,951</b>	<b>571,060</b>

### 9. Transfers (to) / from Earmarked Reserves

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

	<u>Balance</u> <u>31 March</u> <u>2016</u> £000	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2016/17</u> £000	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2016/17</u> £000	<u>Balance</u> <u>31 March</u> <u>2017</u> £000
<b><u>Earmarked Reserves</u></b>				
<b><u>General Fund</u></b>				
PFI Sinking Fund	(4,315)		65	(4,250)
Insurance Reserve	0	(2,750)		(2,750)
On Street Parking	(3,122)	(663)		(3,785)
Transformation	(3,190)		73	(3,117)
General Fund Contributions to Capital	(234)	(342)		(576)
Medium Tern Financial Risk Reserve	(24,849)	(1,877)		(26,726)
Taxation Reserve	(2,100)	(1,600)		(3,700)
Organisational Design Reserve	(14,443)		2,133	(12,310)
Revenue Grant Reserve - Waste Services	(1,633)		838	(795)
Revenue Grant Reserve - City Deal	(2,780)		508	(2,272)
Accommodation Reserve	(1,815)			(1,815)
Revenue Grant Reserve - General	(1,147)		351	(796)
Capital Funding Risk Reserve	(3,221)			(3,221)
Other Reserves	(1,095)	(1,341)		(2,436)
	<b>(63,944)</b>	<b>(8,573)</b>	<b>3,968</b>	<b>(68,549)</b>
<b><u>Schools</u></b>				
School Balances	(8,481)		3,468	(5,013)
	<b>(72,425)</b>	<b>(8,573)</b>	<b>7,436</b>	<b>(73,562)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The purpose of the main reserves are noted below:

### Medium term financial risk reserve

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

### Taxation Reserve

Due to the volatile nature of business rates, the predicted recession in 2019/20 and the potential move to 100% Business Rate Retention by 2019/20, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact.

### Transformation Reserve

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

### PFI Sinking Fund

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

### Capital Funding Risk Reserve

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

### Organisational Design Reserve

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

### On Street Parking Reserve

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

### Revenue Grant Reserve – Waste Services

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

### Revenue Grant Reserve – City Deal

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

### Accommodation Reserve

Monies put aside to meet the implementation cost of the Councils Accommodation Strategy, and residual further accommodation changes required as the Council consolidates the number of administrative buildings that it uses in the provision of council services.

### Insurance Reserve

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

## **10. Adjustments Between Accounting Basis and Funding Basis Under Regulations**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	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
<b>Balance at 1 April 2016</b>	<b>(12,806)</b>	<b>(72,425)</b>	<b>(2,000)</b>	<b>0</b>	<b>(13,596)</b>	<b>0</b>	<b>(10,593)</b>	<b>(111,420)</b>	<b>(759,563)</b>	<b>(870,983)</b>
<b>Movement in Reserves during 2016/17</b>										
Surplus / (deficit) on Provision of Services	12,475		(60,109)			0	0	(47,634)		(47,634)
<b>Total Comprehensive Income and Expenditure</b>	<b>12,475</b>	<b>0</b>	<b>(60,109)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(47,634)</b>	<b>46,332</b>	<b>(1,302)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(763)							(763)	763	0
Depreciation (and amounts equal to) and Impairment of Non Current Assets	(22,772)		20,469					(2,303)	2,303	0
Movement on Market Value of Investment Properties	4,127		(99)					4,028	(4,028)	0
Assets Transferred to CAPITA	(403)							(403)	403	0
Capital Grants and Contributions Applied	22,495		1,780					24,275	(24,275)	0
Capital Grants and Contributions Unapplied	1,222		13				(1,235)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(8,079)							(8,079)	8,079	0
Short-term Accumulating Compensated Absences	(680)							(680)	680	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	60							60	(60)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(33,577)		(4,213)					(37,790)	37,790	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	22,124		2,776					24,900	(24,900)	0
Statutory Provision for the Financing of Capital Investment	2,895							2,895	(2,895)	0
Voluntary Provision for the Financing of Capital Investment	(1)		5,592					5,591	(5,591)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(2,054)				2,054			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	551		9,123					9,674	(9,674)	0
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	649							649	(649)	0
Transfers to/(from) Major Repairs Reserves			18,894			(18,894)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						18,894		18,894	(18,894)	0
Amortisation of Item 8 Discount			(13)					(13)	13	0
Net (loss) / gain on sale of Fixed Assets								0	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	0		0		(2,762)			(2,762)	2,762	0
Capital Receipts in Year	10,412		12,318		(22,730)			0	0	0
Non-current Asset Disposals	(8,327)		(7,532)					(15,859)	15,859	0
Capital Receipts Financing of New Capital Expenditure					9,217			9,217	(9,217)	0
	<b>(12,121)</b>	<b>0</b>	<b>59,108</b>	<b>0</b>	<b>(14,221)</b>	<b>0</b>	<b>(1,235)</b>	<b>31,531</b>	<b>(31,531)</b>	<b>0</b>
Net Increase/Decrease before Transfers to Earmarked Reserves	354	0	(1,001)	0	(14,221)	0	(1,235)	(16,103)	14,801	(1,302)
Transfers to/(from) Earmarked Reserves (Note 9)	1,136	(1,137)	1	0	0	0	0	0	0	0
(Increase)/Decrease movement in Year	1,490	(1,137)	(1,000)	0	(14,221)	0	(1,235)	(16,103)	14,801	(1,302)
<b>Balance at 31 March 2017</b>	<b>(11,316)</b>	<b>(73,562)</b>	<b>(3,000)</b>	<b>0</b>	<b>(27,817)</b>	<b>0</b>	<b>(11,828)</b>	<b>(127,523)</b>	<b>(744,762)</b>	<b>(872,285)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	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
Balance at 1 April 2015	(19,937)	(62,812)	(2,000)	0	(9,122)	0	(6,908)	(100,779)	(684,221)	(785,000)
<b>Movement in Reserves during 2015/16</b>										
Surplus or (deficit) on Provision of Services	70,887		(69,815)			0	0	1,072		1,072
<b>Total Comprehensive Income and Expenditure</b>	<b>70,887</b>	<b>0</b>	<b>(69,815)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,072</b>	<b>(87,055)</b>	<b>(85,983)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(802)							(802)	802	0
Depreciation and Impairment of Fixed Assets	(80,243)		53,865					(26,378)	26,378	0
Movement on Market Value of Investment Properties	(5,087)		71					(5,016)	5,016	0
Assets Transferred to CAPITA	(383)							(383)	383	0
Capital Grants and Contributions Applied	26,475		748					27,223	(27,223)	0
Capital Grants and Contributions Unapplied	3,685		0				(3,685)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(8,843)							(8,843)	8,843	0
Short-term Accumulating Compensated Absences Account	913							913	(913)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	59							59	(59)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,018)		(4,192)					(34,210)	34,210	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	19,304		2,696					22,000	(22,000)	0
Statutory Provision for the Financing of Capital Investment	2,423							2,423	(2,423)	0
Voluntary Provision for the Financing of Capital Investment	0		5,135					5,135	(5,135)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,218)				1,218			0	0	0
Capital expenditure charged in-year to the General Fund Balance	381		7,532					7,913	(7,913)	0
Amount by which council tax income and NNDR credited to the Comprehensive Income and Expenditure Statement is different from council income calculated for the year in accordance with statutory requirements	40							40	(40)	0
Transfers to/(from) Major Repairs Reserve			19,832			(19,832)		0	0	0
HRA Depreciation								0	0	0
Financing of HRA Assets			(19,832)			19,832		0	0	0
Amortisation of Item 8 Discount			(13)					(13)	13	0
Net (loss) / gain on sale of Fxed Assets								0	0	0
Capital Receipts not matched by Disposal of Assets								0	0	0
Capital Receipts in Year	2,928		8,816		(11,744)			0	0	0
Non-current Asset Disposals	(2,124)		(4,843)					(6,967)	6,967	0
Capital Receipts Financing of New Capital Expenditure					5,192			5,192	(5,192)	0
12/13 RTB Receipts repaid to DCLG	(860)				860			0	0	0
	<b>(73,370)</b>	<b>0</b>	<b>69,815</b>		<b>(4,474)</b>	<b>0</b>	<b>(3,685)</b>	<b>(11,714)</b>	<b>11,714</b>	<b>0</b>
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,483)	0	0	0	(4,474)	0	(3,685)	(10,642)	(75,341)	(85,983)
Transfers to/(from) Earmarked Reserves (Note 9)	9,614	(9,613)	0	0	0	0	0	1	(1)	0
(Increase)/Decrease movement in Year	7,131	(9,613)	0	0	(4,474)	0	(3,685)	(10,641)	(75,342)	(85,983)
<b>Balance at 31 March 2016</b>	<b>(12,806)</b>	<b>(72,425)</b>	<b>(2,000)</b>	<b>0</b>	<b>(13,596)</b>	<b>0</b>	<b>(10,593)</b>	<b>(111,420)</b>	<b>(759,563)</b>	<b>(870,983)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Interest Payable and Receivable

<b>Interest Payable and Similar Charges</b>		
<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
8,321	Interest on External Loans	7,980
486	Payments to HCC in respect of Transferred Debt	454
138	Interest on Funds held	125
6,226	PFI Schemes	6,020
0	Finance Leases	
<b>15,171</b>		<b>14,579</b>

<b>Interest and Investment Income</b>		
<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
(1,212)	Temporary Investments	(1,052)
(24)	HRA Cash Balances	(28)
(33)	Other	(3)
<b>(1,269)</b>		<b>(1,083)</b>

### 12. Property Plant and Equipment (PPE)

PPE are shown at a current valuation of £1.332M, an increase of £71M. The basis of valuation is explained in more detail in Note 1q) (Accounting Policies). The values are shown as at 31 March 2017.

#### a) Depreciation

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

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

#### b) Revaluations

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

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

#### c) Disposals

For 2016/17 there was a £6.9M (2015/16 - £4.9M) gain on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, which mainly relates the Housing Revenue Account £4.8M (2015/16 - £3.9M).

#### d) Fair Value

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<b>Movement in Property, Plant &amp; Equipment (PPE) 2016/17</b>									
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>	<b>PFI Assets Included in PP&amp;E</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>									
At 1 April 2016	597,018	618,956	49,471	199,559	3,628	935	16,073	<b>1,485,639</b>	99,295
Additions	50,946	5,780	2,345	9,940	(4)	0	11,169	<b>80,176</b>	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		(1,617)				0		<b>(1,617)</b>	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	19,293	(469)						<b>18,824</b>	0
Derecognition- Disposals	(7,094)	(1,526)						<b>(8,620)</b>	
Derecognitions- Fully Depreciated Reclassified to/from Held for Sale			(247)			(935)		<b>(1,182)</b>	
Other Reclassifications	(1,261)	4,186			16	0	(435)	<b>2,506</b>	
<b>At 31 March 2017</b>	<b>658,902</b>	<b>625,310</b>	<b>51,569</b>	<b>209,499</b>	<b>3,640</b>	<b>0</b>	<b>26,807</b>	<b>1,575,726</b>	<b>99,295</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2016	(19,832)	(160,503)	(11,125)	(31,899)	(49)	(935)		<b>(224,343)</b>	(16,184)
Reclassifications								<b>0</b>	
Depreciation Charge	(18,894)	(14,290)	(3,490)	(4,285)		0		<b>(40,959)</b>	(2,832)
Depreciation written out to the (Surplus)/ Deficit on the Provision of Services	19,832							<b>19,832</b>	
Derecognition- Disposals			247			935		<b>1,182</b>	
<b>At 31 March 2017</b>	<b>(18,894)</b>	<b>(174,793)</b>	<b>(14,368)</b>	<b>(36,184)</b>	<b>(49)</b>	<b>0</b>	<b>0</b>	<b>(244,288)</b>	<b>(19,016)</b>
<b>Net Book Value</b>									
<b>At 31 March 2017</b>	<b>640,008</b>	<b>450,517</b>	<b>37,201</b>	<b>173,315</b>	<b>3,591</b>	<b>0</b>	<b>26,807</b>	<b>1,331,438</b>	<b>80,279</b>
<b>At 31 March 2016</b>	<b>577,186</b>	<b>458,453</b>	<b>38,346</b>	<b>167,660</b>	<b>3,579</b>	<b>0</b>	<b>16,073</b>	<b>1,261,296</b>	<b>83,111</b>

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Carried at Historic Cost</b>		193	37,201	173,315	3,591	0	26,807	<b>241,107</b>
<b>Valued at Fair Value in:</b>								
2016/17	640,008	8,107						<b>648,115</b>
2015/16		326,112						<b>326,112</b>
2013/14		65,616						<b>65,616</b>
2012/13		34,915						<b>34,915</b>
2011/12		15,574						<b>15,574</b>
<b>Net Book Value as at 31 March 2017</b>	<b>640,008</b>	<b>450,517</b>	<b>37,201</b>	<b>173,315</b>	<b>3,591</b>	<b>0</b>	<b>26,807</b>	<b>1,331,438</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movement in Property, Plant &amp; Equipment (PPE) 2015/16</b>									
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>	<b>PFI Assets Included in PP&amp;E</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>									
At 1 April 2015	527,622	618,093	48,462	185,374	1,067	983	10,919	<b>1,392,520</b>	99,295
Additions	38,818	6,515	1,657	14,185	47	0	5,154	<b>66,376</b>	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve		50,616			0	0		<b>50,616</b>	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	34,629	(58,213)			(103)	(48)	0	<b>(23,735)</b>	0
Derecognition-Disposals	(4,837)	(399)			(1)	0	0	<b>(5,237)</b>	
Derecognitions- Fully Depreciated			(648)					<b>(648)</b>	
Other Reclassifications	786	2,344			2,618	0	0	<b>5,748</b>	
<b>At 31 March 2016</b>	<b>597,018</b>	<b>618,956</b>	<b>49,471</b>	<b>199,559</b>	<b>3,628</b>	<b>935</b>	<b>16,073</b>	<b>1,485,639</b>	<b>99,295</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2015	(18,871)	(146,349)	(8,416)	(27,877)	(49)	(935)		<b>(202,497)</b>	(13,353)
Depreciation Charge	(19,832)	(14,199)	(3,357)	(4,022)		0		<b>(41,410)</b>	(2,831)
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,871							<b>18,871</b>	
Derecognition-Disposals		45	648			0		<b>693</b>	
<b>At 31 March 2016</b>	<b>(19,832)</b>	<b>(160,503)</b>	<b>(11,125)</b>	<b>(31,899)</b>	<b>(49)</b>	<b>(935)</b>	<b>0</b>	<b>(224,343)</b>	<b>(16,184)</b>
<b>Net Book Value</b>									
<b>At 31 March 2016</b>	<b>577,186</b>	<b>458,453</b>	<b>38,346</b>	<b>167,660</b>	<b>3,579</b>	<b>0</b>	<b>16,073</b>	<b>1,261,296</b>	<b>83,111</b>
<b>At 31 March 2015</b>	<b>508,751</b>	<b>471,744</b>	<b>40,046</b>	<b>157,497</b>	<b>1,018</b>	<b>48</b>	<b>10,919</b>	<b>1,190,023</b>	<b>85,942</b>

### Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £15.7M. Similar commitments at 31 March 2016 were £25.2M. The major commitments are:

	<b>2015/16 £000</b>	<b>2016/17 £000</b>
HRA - Modern Facilities	11,277	2,639
HRA - Safe Wind and Weather Tight	3,199	2,527
HRA - Estate Regeneration & New Build	2,422	0
Southampton New Arts Centre (SNAC)	587	336
HRA - Well Maintained Communal Facilities	1,655	0
HRA - Warm and Energy Efficient	660	0
Oaklands Swimming Pool	1,123	0
Springwell School Expansion	0	8,062
Schools Primary Review	0	441
Mayfield Park Play Area	0	250
Other Various Minor Commitments	4,231	1,408
<b>Total</b>	<b>25,154</b>	<b>15,663</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13. Heritage Assets

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

<b>Reconciliation of the Carrying Value of Heritage Assets Held by the Council</b>			
	<b>Works of Art</b>	<b>Historic Buildings and Ancient Monuments</b>	<b>Total Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>			
1 April 2015	190,000	7,122	197,122
Additions		3	3
Revaluations		(3)	(3)
Transfers to Property, Plant & Equipment		(6,283)	(6,283)
<b>31 March 2016</b>	<b>190,000</b>	<b>839</b>	<b>190,839</b>
<b>Accumulated Depreciation and Impairment</b>			
1 April 2015		(736)	(736)
<b>31 March 2016</b>	<b>0</b>	<b>(736)</b>	<b>(736)</b>
<b>Net Book Value</b>			
<b>31 March 2016</b>	<b>190,000</b>	<b>103</b>	<b>190,103</b>
<b>31 March 2015</b>	<b>190,000</b>	<b>6,386</b>	<b>196,386</b>
<b>Cost or Valuation</b>			
1 April 2016	190,000	839	190,839
Additions		143	143
Revaluations			0
Transfers to Property Plant & Equipment			0
<b>31 March 2017</b>	<b>190,000</b>	<b>982</b>	<b>190,982</b>
<b>Accumulated Depreciation and Impairment</b>			
1 April 2016	0	(736)	(736)
<b>31 March 2017</b>	<b>0</b>	<b>(736)</b>	<b>(736)</b>
<b>Net Book Value</b>			
<b>31 March 2017</b>	<b>190,000</b>	<b>246</b>	<b>190,246</b>
<b>31 March 2016</b>	<b>190,000</b>	<b>103</b>	<b>190,103</b>

### Additions, Transfers and Disposals of Heritage Assets

There were £143k (£3k 15/16) of Heritage Asset additions and no disposals in either current or previous year. During the year a number of museums were reclassified to Other Land and Buildings following a review undertaken by Valuers.

### 14. Investment Properties

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

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
(7,366)	Rental Income	(8,182)
2,669	Operating Expenditure	2,501
<b>(4,697)</b>	<b>Net (Gains)/Losses</b>	<b>(5,681)</b>
5,016	Net (gains)/losses from fair value adjustments	(4,028)
<b>319</b>	<b>Net (Income) / Expenditure</b>	<b>(9,709)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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>2015/16</u>	<u>2016/17</u>
	£000	£000
<b>Balance at start of year</b>	<b>101,426</b>	<b>95,179</b>
Additions:		
Purchases	0	29,686
Construction	0	0
Subsequent Expenditure	9	2
Disposals	(1,775)	(5,565)
Net gains / (losses) from fair value adjustments	(5,016)	4,028
Transfers		
(to) /from inventories	0	0
(to) / from Property, Plant and Equipment	535	(2,506)
<b>Balance at End of Year</b>	<b><u>95,179</u></b>	<b><u>120,824</u></b>

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

### 15. Intangible Assets

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

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

<u>Purchased Software</u>		
	<u>31 March</u>	<u>31 March</u>
	<u>2016</u>	<u>2017</u>
	£000	£000
Gross carrying amount	7,287	7,926
Accumulated amortisation	(2,595)	(3,397)
<b>Net Carrying Amount at Start of the Year</b>	<b><u>4,692</u></b>	<b><u>4,529</u></b>
Purchases	639	2,524
Amortisation for the period	(802)	(763)
<b>Net Carrying Amount at End of the Year</b>	<b><u>4,529</u></b>	<b><u>6,290</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16. Assets Held for Sale (AHFS)

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

	<u>2015/16</u>	<u>2016/17</u>
	<u>£000</u>	<u>£000</u>
<b>Balance at Start of Year</b>	<b>2,571</b>	<b>2,639</b>
Assets newly classified as held for sale from:		
Property, Plant and Equipment	0	0
Revaluation Gains	68	1,399
Impairment losses to CIES	0	0
Assets Sold	0	(1,674)
<b>Balance at End of Year</b>	<b><u>2,639</u></b>	<b><u>2,364</u></b>

### 17. Financial Instruments

#### a) Financial Instruments Classifications

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

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

#### Financial Liabilities

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

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Transferred debt liability to Hampshire County Council as a result of local government reorganisation,
- Finance leases on land and buildings,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

#### Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash 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.

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

- Cash,
- Bank accounts,
- Fixed term deposits with banks and building societies,
- Loans to other local authorities,

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Lease receivables and
- Trade receivables for goods and services delivered (have been measured at cost on the Balance Sheet as these are considered immaterial).

Available for sale financial assets (those that are quoted in an active market or do not have fixed or determinable payments) comprising:

- Property funds managed by CCLA fund managers
- Certificates of deposit and covered bonds issued by banks and building societies,
- Treasury bills and gilts issued by the UK Government, and
- Bonds issued by multilateral development banks and companies,

Unquoted Equity Investments held at cost because it is impracticable to determine fair value, comprising:

- Equity investments in UK Municipal Bonds Agency.

Balances in money market funds and call accounts at 31 March 2017 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

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

### b) Financial Instruments Balances

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

<b>Financial Liabilities</b>	<b>Long Term</b>		<b>Short Term</b>		<b>Total</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loans at amortised cost:						
- Principal sum borrowed	(220,300)	(208,795)	(28,861)	(50,861)	(249,161)	(259,656)
- Accrued interest			(1,124)	(1,015)	(1,124)	(1,015)
- EIR adjustments					0	0
<b>Total Borrowing</b>	<b>(220,300)</b>	<b>(208,795)</b>	<b>(29,985)</b>	<b>(51,876)</b>	<b>(250,285)</b>	<b>(260,671)</b>
Loans at amortised cost:						
- Bank Overdraft	0	0	(3,224)	(4,152)	(3,224)	(4,152)
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>(3,224)</b>	<b>(4,152)</b>	<b>(3,224)</b>	<b>(4,152)</b>
Liabilities at amortised cost:						
- Finance leases	(1)	(1)			(1)	(1)
- PFI arrangements	(62,262)	(60,421)			(62,262)	(60,421)
<b>Total Long-term Creditors</b>	<b>(62,263)</b>	<b>(60,422)</b>	<b>0</b>	<b>0</b>	<b>(62,263)</b>	<b>(60,422)</b>
Liabilities at amortised cost:						
- Deferred Liabilities	(14,917)	(14,553)	(364)	(364)	(15,281)	(14,917)
<b>Total Other Long-term Liabilities</b>	<b>(14,917)</b>	<b>(14,553)</b>	<b>(364)</b>	<b>(364)</b>	<b>(15,281)</b>	<b>(14,917)</b>
Liabilities at amortised cost:						
- Finance leases			(6)	0	(6)	0
- PFI arrangements			(2,526)	(1,841)	(2,526)	(1,841)
- Trade payables			(10,522)	(19,515)	(10,522)	(19,515)
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>(13,054)</b>	<b>(21,356)</b>	<b>(13,054)</b>	<b>(21,356)</b>
<b>Total Financial Liabilities</b>	<b>(297,480)</b>	<b>(283,770)</b>	<b>(46,627)</b>	<b>(77,748)</b>	<b>(344,107)</b>	<b>(361,518)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Long Term		Short Term		Total	
	31 March					
	2016	2017	2016	2017	2016	2017
Financial Assets	£000	£000	£000	£000	£000	£000
Loans and receivables:						
- Principal at amortised cost			0	0	0	0
- Accrued interest			0	0	0	0
Available for sale investments:						
- Principal at amortised cost	22,985	27,620	25,224	7,481	48,209	35,101
- Accrued interest			806	578	806	578
- EIR adjustments	(757)	104	0	30	(757)	134
- Fair value adjustments	1,303	375	(44)	0	1,259	375
<b>Total Investments</b>	<b>23,531</b>	<b>28,099</b>	<b>25,986</b>	<b>8,089</b>	<b>49,517</b>	<b>36,188</b>
Loans and receivables:						
- Cash			91	102	91	102
- Cash equivalent at amortised cost			39,066	22,874	39,066	22,874
- Accrued interest			31	23	31	23
Available for sale investments:					0	0
- Cash equivalent at amortised cost					0	0
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>39,188</b>	<b>22,999</b>	<b>39,188</b>	<b>22,999</b>
Loans and receivables:						
- Trade receivables			9,010	11,106	9,010	11,106
- Loans made for service purposes	1,617	75			1,617	75
<b>Included in Debtors</b>	<b>1,617</b>	<b>75</b>	<b>9,010</b>	<b>11,106</b>	<b>10,627</b>	<b>11,181</b>
<b>Total Financial Assets</b>	<b>25,148</b>	<b>28,174</b>	<b>74,184</b>	<b>42,194</b>	<b>99,332</b>	<b>70,368</b>

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2017/18.

### c) Offsetting Financial Assets and Liabilities

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

### d) Financial Instruments – Gains and Losses

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

	2015/16		2016/17		
	Total £000	Amortised cost £000	Financial Liabilities	Financial Assets	Total £000
			Loans and Receivables £000	Available- for-sale Assets £000	
Interest expense	15,036	14,443			14,443
Losses on derecognition	135	136			136
<b>Interest Payable and Similar Charges</b>	<b>15,171</b>	<b>14,579</b>	<b>0</b>	<b>0</b>	<b>14,579</b>
Interest income	(1,180)		(994)		(994)
Gains on derecognition	(89)	(89)			(89)
<b>Interest and Investment Income</b>	<b>(1,269)</b>	<b>(89)</b>	<b>(994)</b>	<b>0</b>	<b>(1,083)</b>
Gains on revaluation	(300)				0
Losses on revaluation	0			884	884
Amounts recycled to the I&E Account after impairment	(300)			884	884
<b>Impact of revaluation in Other Comprehensive Income</b>					
<b>Net Gain / (Loss) for the Year</b>	<b>13,602</b>	<b>14,490</b>	<b>(994)</b>	<b>884</b>	<b>14,380</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Financial Instruments – Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market place.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- The fair value of loans from the PWLB have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to Bloomberg’s proprietary model for Bermudan cancellable swaps. Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair value of finance lease assets and liabilities and 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.
- The Fair value of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2017.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

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

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March 2016</u>	<u>31 March 2016</u>			<u>31 March 2017</u>	<u>31 March 2017</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<b>Financial Liabilities held at amortised cost</b>					
(231,805)	(266,479)	Public Works Loans	2	(220,300)	(274,104)
(9,000)	(12,657)	LOBO Loans	2	(9,000)	(14,001)
(15,281)	(17,607)	Transferred Debt Liabilities **	2	(14,917)	(16,601)
(64,795)	(103,664)	PFI/Finance Lease Liabilities	2	(62,263)	(103,751)
<b>(320,881)</b>	<b>(400,407)</b>			<b>(306,480)</b>	<b>(408,457)</b>
<b>Liabilities for which Fair Value is not disclosed*</b>					
(9,480)		Short Term borrowing		(31,371)	
(3,224)		Bank Overdraft		(4,152)	
(10,522)		Trade Payables (Creditors)		(19,515)	
<b>(23,226)</b>				<b>(55,038)</b>	
<b>(344,107)</b>		<b>Total Financial Liabilities</b>		<b>(361,518)</b>	

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

\*\* Fair value restated from £15,281k in 15/16.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March 2016</u>	<u>31 March 2016</u>			<u>31 March 2017</u>	<u>31 March 2017</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
		<b>Financial Assets held at Fair Value</b>			
29,076	29,076	Money Market Funds	1	13,882	13,882
7,597	7,597	Bond, Equity and Property Funds	1	16,646	16,646
41,810	41,810	Corporate, Covered and Government Bonds	1	19,382	19,382
<b>78,483</b>	<b>78,483</b>			<b>49,910</b>	<b>49,910</b>
		<b>Assets for which Fair Value is not disclosed*</b>			
		<i>Recorded on balance sheet as:</i>			
1,617		Long Term Debtors		75	
90		Short Term investments		140	
20		Shares in unlisted companies**		20	
10,112		Cash and Cash Equivalents		9,117	
9,010		Trade Receivables (Debtors)		11,106	
<b>20,849</b>				<b>20,458</b>	
		<b>Total Financial Assets</b>		<b>70,368</b>	
<b>99,332</b>					

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

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

### e) Financial Instruments – Risks

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

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

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

The main risks covered are:

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

### f) Credit Risk

#### 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 £59M 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 2017 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement for, approved by Full Council on 11 February 2016. The Treasury Strategy can be seen as Item 76 on the Council Meeting Agenda found via the following web link:

[Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19](#)

The Credit quality of Council's investments is enhanced by collateral held - £12M in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2017 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	
	2016 £000	2017 £000	2016 £000	2017 £000
AAA	12,556	8,308	11,128	4,636
AA+	3,358	3,125	3,660	138
AA				61
AA-			2,212	8,278
A+			2,702	5,645
A			16,303	9,015
A-				3,175
Shares in unlisted companies	20	20		
Unrated pooled funds	7,597	16,646	29,169	140
<b>Total Investments</b>	<b>23,531</b>	<b>28,099</b>	<b>65,174</b>	<b>31,088</b>

The above analysis shows that all deposits outstanding as at 31 March 2017 met the Council's minimum credit rating criteria of A- or above.

### Trade Receivables

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

<b>Trade Debtors and Impairment Provision</b>		
	<b>Outstanding 31 March 2016 £000</b>	<b>Outstanding 31 March 2017 £000</b>
<b>General Fund</b>		
Trade Debtors	5,098	<b>6,824</b>
Trade Debtors Impairment Provision	(394)	<b>(316)</b>
<b>HRA</b>		
Trade Debtors	3,912	<b>4,282</b>
Trade Debtors Impairment Provision	(1,808)	<b>(1,922)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2015/16</u> £000	<u>Trade debtors, analysed by age</u>	<u>2016/17</u> £000
6,629	Less than two months	10,666
819	Two to six months	82
600	Six months to one year	96
961	More than one year	262
<u>9,010</u>		<u>11,106</u>

### g) Liquidity Risk

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

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

The maturity analysis of the principal borrowed as at 31 March 2017 was as follows:

<u>Outstanding</u> <u>31 March 2016</u>	<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>	<u>Total Borrowing</u>	<u>Outstanding</u> <u>31 March 2017</u>	<u>% of Total</u> <u>Debt</u> <u>Portfolio</u>
£000	%	Source of Loan	£000	%
(231,805)	93	Public Works Loan Board	(220,300)	85
(17,356)	7	Other Financial Institutions	(39,356)	15
<u>(249,161)</u>	<u>100</u>		<u>(259,656)</u>	<u>100</u>
<b>Analysis of Loans by Maturity</b>				
(28,861)	12	Less than 1 Year	(41,861)	16
(11,505)	4	Between 1 and 2 years	(11,505)	4
(32,198)	13	Between 2 and 5 years	(17,645)	7
(37,750)	15	Between 5 and 10 years	(40,798)	16
(10,000)	4	Between 25 and 30 years	(10,000)	4
(5,000)	2	Between 30 and 35 years	(5,000)	2
(42,000)	17	Between 35 and 40 years	(42,000)	16
(54,850)	22	Between 40 and 45 years	(54,850)	21
(26,997)	11	Over 45 years	(26,997)	10
		Uncertain Date**	(9,000)	4
<u>(249,161)</u>	<u>100</u>		<u>(259,656)</u>	<u>100</u>

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Loans and Other Long term Liabilities Outstanding (Nominal Value)

Source	Outstanding	Outstanding
	31 March 2016	31 March 2017
	£000	£000
Public Works Loan Board	(231,805)	(220,300)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(8,356)	(30,356)
Deferred Liabilities	(15,281)	(14,917)
PFI / Finance Lease Liabilities	(64,795)	(62,262)
<b>Total</b>	<b>(329,237)</b>	<b>(336,835)</b>

## h) Market Risk

### Interest Rate Risk

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

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

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

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 2017 £121M (78%) of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and £35M to variable rates.

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

	£000
Increase in interest payable on variable rate borrowings	650
Increase in interest payable on variable rate investments	(320)
<b>Impact on the Provision of Services (Surplus / Deficit)</b>	<b>330</b>
Share of overall impact debited/credited to HRA	316
Decrease in fair value of available for sale financial assets	39
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>39</b>
Decrease in fair value of fixed rate borrowings/liabilities <i>(no impact on Comprehensive Income and Expenditure)</i>	(42,685)

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

The Council has £9M (2016: £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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk was limited by the Council's maximum exposure to property investments of £10M. As at 31 March 2017 the Authority had £17M invested in the Local Authority Property Fund which was valued at £16.7M. A 5% fall in commercial property prices would result in a £0.83M charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

### 18. Debtors

#### a) Long Term Debtors

This is made up of the following:

- **Mortgages** – These are loans outstanding to borrowers either for the purchase of Council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties, there is a residual balance of £8k (15/16 £8k)
- **Other** – The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job, the balance is currently £67k (£94k)

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

(Included within the comparative figures were Capita Prepayment £1.1M and IT Assets transferred to Capita £0.4M)

#### b) Short Term Debtors

The Short Term Debtor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2017. Inter-Portfolio Debtors and Creditors cancel each other out when the Balance Sheet is produced.

<b>31 March 2016</b>	<b>Debtors</b>	<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
	<b>Government</b>	
4,944	HM Revenue & Customs (VAT)	5,220
1,295	Other Departments	392
<u>6,239</u>		<u>5,612</u>
	<b>Public Sector Organisations</b>	
407	Hampshire County Council	546
589	Other Local Government	394
70	Other Public Sector	41
333	Other Health Bodies	209
<u>1,399</u>		<u>1,190</u>
	<b>Taxpayers</b>	
10,029	Council Tax	10,193
(7,475)	Council Tax Impairment	(7,538)
2,275	Non-Domestic Rates	2,739
(920)	Non-Domestic Rates Impairment	(1,608)
<u>3,909</u>		<u>3,786</u>
	<b>General Fund - Other Debtors</b>	
9,395	Housing Benefit	10,151
(6,035)	Housing Benefit Impairment Provision	(6,568)
4,299	CAPITA	5,366
5,098	Trade Debtors	6,824
(394)	Trade Debtors Impairment Provision	(316)
17,103	Sundry Debtors	12,276
(914)	Sundry Debtors Impairment Provision	(853)
<u>28,552</u>		<u>26,880</u>
	<b>Housing Revenue Account - Other Debtors</b>	
3,912	Trade Debtors	4,282
(1,808)	Trade Debtors - Impairment Provision	(1,922)
1,324	Sundry Debtors	1,198
(342)	Sundry Debtors - Impairment Provision	(240)
<u>3,086</u>		<u>3,318</u>
<u>43,185</u>	<b>Total Debtors</b>	<u>40,786</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by over £4.2M, the Council's actual bank account balance at the Bank was a credit balance of £0.73M at 31 March 2017. 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>2016</u> £000		<u>31 March</u> <u>2017</u> £000
(3,224)	Bank Accounts	(4,152)
(3,224)		(4,152)
29,076	Money Market Funds	13,882
10,021	Call Accounts	9,015
91	Petty Cash	102
39,188		22,999
<u>35,964</u>		<u>18,847</u>

### 20. Creditors

The Creditor balances represent the estimated outstanding liabilities as at 31 March 2017.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff which are not paid over to HMRC by 31 March 2017.

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

<u>31 March</u> <u>2016</u> £000	<b>Creditors</b>	<u>31 March</u> <u>2017</u> £000
	<b>Government</b>	
14,343	Department for Communities & Local Government	13,845
1,815	HM Revenue & Customs (PAYE & National Insurance)	2,901
2,127	Department for Work & Pensions (DWP)	810
774	Other Departments	828
<u>19,059</u>		<u>18,384</u>
	<b>Public Sector Organisations</b>	
2,109	Hampshire County Council	1,619
3,346	Hampshire County Council (Local Government Pensions)	3,842
1,902	NHS Southampton Clinical Commissioning Group	851
881	Other Local Government	532
1,398	Other Public Sector	1,861
423	Other Health Bodies	95
<u>10,059</u>		<u>8,800</u>
	<b>Taxpayers</b>	
3,563	Council Tax / Business Rates (prepayments)	3,939
<u>3,563</u>		<u>3,939</u>
	<b>General Fund - Other Creditors</b>	
2,526	Finance Creditor (PFI and Hampshire Waste Contract)	1,841
1,372	Accumulated Absences Account	2,052
2,106	CAPITA	1,219
24,626	Sundry Creditors	15,580
9,432	Trade Creditors	15,869
<u>40,062</u>		<u>36,561</u>
	<b>Housing Revenue Account - Other Creditors</b>	
2,790	Sundry Creditors	5,597
1,090	Trade Creditors	3,646
<u>3,880</u>		<u>9,243</u>
<u>76,623</u>	<b>Total Creditors</b>	<u>76,927</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 March 2016</u>	<u>Additional Provisions Made in Year</u>	<u>Amounts Used in Year</u>	<u>Balance at 31 March 2017</u>
	£000	£000	£000	£000
<u>General Fund</u>				
NDR Appeals Provision	8,368	856		9,224
General Insurance Funds	5,931		(3,869)	2,062
Itchen Bridge Repairs	410	200		610
Other Provisions	2,712		(802)	1,910
<b>Total</b>	<b>17,421</b>	<b>1,056</b>	<b>(4,671)</b>	<b>13,806</b>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u>	<u>Total Long Term</u>			<u>Balance at 31 March 2017</u>
	<u>Due within 1 Year</u>	<u>Due between 2 to 5 years</u>	<u>Over 5 years</u>		
	£000's	£000's	£000's	£000's	£000
<u>General Fund</u>					
NDR Appeals Provision	5,301	3,923	0	3,923	9,224
General Insurance Funds	750	1,312	0	1,312	2,062
Itchen Bridge Repairs	0	610	0	610	610
Other Provisions	1,136	482	292	774	1,910
<b>Total</b>	<b>7,187</b>	<b>6,327</b>	<b>292</b>	<b>6,619</b>	<b>13,806</b>

#### a) NDR Appeals Provision

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

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

#### b) Insurance Provisions

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

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2017 amounted to £2.1M. Additionally, a further £2.8M 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

### Other Provisions

All other provisions are individually immaterial.

## 22. Unusable Reserves

### a) Revaluation Reserve

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

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

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

<u>2015/16</u> £000		<u>2016/17</u> £000
(297,538)	Balance Brought Forward	(344,272)
(83,327)	Upward revaluations of assets	(1,399)
32,642	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,617
(50,685)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	218
3,796	Difference between fair value depreciation and historical cost depreciation	3,731
155	Accumulated Revaluations on Disposals	1,881
<u>(344,272)</u>	<b>Balance Carried Forward</b>	<u>(338,442)</u>

### b) Capital Adjustment Account (CAA)

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2015/16</u> £000		<u>2016/17</u> £000
(770,704)	Balance Brought Forward	(774,153)
	<b>Capital Financing</b>	
(5,192)	Usable Capital Receipts	(9,217)
(27,223)	Capital Grants & Contributions	(24,275)
(19,832)	HRA Financing from the Major Repairs Reserve	(18,894)
(7,913)	Revenue Contributions	(9,674)
	<b>Other Movements</b>	
8,843	Revenue Expenditure Funded from Capital under Statute	8,079
	Net gains/losses from fair value adjustments on Investment	
5,016	Properties	(4,028)
383	Deferred Considerations	403
802	Amortisation of Intangibles	763
46,210	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	2,303
6,967	Disposals	15,859
(3,796)	Historic Cost Depreciation Adjustment	(3,731)
(155)	Accumulated Revaluations on Disposals	(1,881)
(7,558)	Provision for the Financing of Capital Investment	(8,487)
(1)	Other	1
<b>(774,153)</b>	<b>Balance Carried Forward</b>	<b>(826,932)</b>

### c) Pensions Reserve

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

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

<u>2015/16</u> £000		<u>2016/17</u> £000
390,700	Balance Brought Forward	366,840
21,090	Current Service Cost	23,150
960	Past Service Costs (added years)	2,590
12,160	Net Interest Costs	12,050
(22,000)	Payments to Pension Fund	(24,900)
(36,070)	Actuarial Gains /(Losses) on the Fund	45,230
<b>366,840</b>	<b>Balance Carried Forward</b>	<b>424,960</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Collection Fund Adjustment Account

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

<u>2015/16</u>		<u>2016/17</u>
£000		£000
(5,635)	Balance Brought Forward	(5,675)
961	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	(1,458)
(1,001)	Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	809
<u>(5,675)</u>	<b>Balance Carried Forward</b>	<u>(6,324)</u>

### e) Accumulated Absences Account

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

<u>2015/16</u>		<u>2016/17</u>
£000		£000
2,285	Balance Brought Forward	1,372
(2,285)	Settlement or cancellation of accrual made at the end of the preceding year	(1,372)
1,372	Amounts accrued at the end of the current year	2,052
<u>1,372</u>	<b>Balance Carried Forward</b>	<u>2,052</u>

### f) Deferred Capital Receipts Reserve

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

<u>2015/16</u>		<u>2016/17</u>
£000		£000
(2,762)	Balance Brought Forward	(2,762)
	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
	Transfer to the Capital Receipts Reserve upon receipt of cash	2,762
<u>(2,762)</u>	<b>Balance Carried Forward</b>	<u>0</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>2015/16</u>		<u>2016/17</u>
£000		£000
<b>(1,072)</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>47,634</b>
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
41,410	Depreciation	40,959
4,798	Movement on assets charged to revenue	(38,656)
802	Amortisation	763
(317)	Adjustments for effective interest rates	(688)
383	Net PFI Debtor Adjustments	403
(85)	Increase/(Decrease) in Interest Creditors	(11,613)
(2,862)	Increase/(Decrease) in Creditors	(2,332)
(318)	(Increase)/Decrease in Interest and Dividend Debtors	198
3,403	(Increase)/Decrease in Debtors	981
(138)	(Increase)/Decrease in Inventories	34
12,210	Pension Liability	12,890
(391)	Contributions to/(from) Provisions	(3,615)
6,967	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	15,859
5,016	Movement in Investment Property Values	(4,028)
(136)	Other Items	0
<b>70,742</b>		<b>11,155</b>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(30,908)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(25,510)
(11,744)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(22,730)
0	Deferred capital receipt - transfer to the Capital Receipts Reserve upon receipt of cash	(2,762)
(146)	Allowable deduction arising from disposal	(217)
<b>(42,798)</b>		<b>(51,219)</b>
<b>26,872</b>	<b>Net Cash Flows from Operating Activities</b>	<b>7,570</b>

#### b) Operating Activities – Interest

<u>2015/16</u>		<u>2016/17</u>
£000		£000
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
634	Interest Received	593
(15,256)	Interest Paid	(26,192)

#### c) Cash Flows from Investing Activities

<u>2015/16</u>		<u>2016/17</u>
£000		£000
	<b>Cash Flows from Investing Activities</b>	
(67,142)	Property, Plant and Equipment Purchased	(109,853)
(57,349)	Purchase of short term investments	(17,451)
11,656	Proceeds from the sale of property plant and equipment, investment property and intangible assets	22,742
45,900	Proceeds from short-term and long-term investments	30,386
34,033	Other Receipts from Investing Activities - Capital Grants & Contributions Received	29,737
<b>(32,902)</b>	<b>Total Cash Flows from Investing Activities</b>	<b>(44,439)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Cash Flows from Financing Activities

<u>2015/16</u>		<u>2016/17</u>
£000		£000
	<b>Cash Flows from Financing Activities</b>	
8,000	Cash receipts of short and long term borrowing	38,900
455	Billing Authorities - Council Tax and NNDR adjustments	648
(11,869)	Repayment of Short-Term and Long-Term Borrowing	(17,264)
(1,848)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,532)
<u>(5,262)</u>	<b>Total Cash Flows from Financing Activities</b>	<u>19,752</u>

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

<u>2015/16</u>		<u>2016/17</u>
£000		£000
	<b>Makeup of Cash and Cash Equivalents</b>	
91	Cash and Bank Balances	102
39,097	Cash Investments - regarded as cash equivalents	22,897
(3,224)	Bank Overdraft	(4,152)
<u>35,964</u>		<u>18,847</u>

## 24. Agency Services

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

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

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

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

## 25. Members' Allowances

The total of members' allowances paid in was £702K (2015/16 was £654K) as detailed in the table below.

	<u>31 March</u> <u>2016</u> £000	<u>31 March</u> <u>2017</u> £000
Salaries	510	551
Allowances	138	147
Expenses	6	4
Total	<u>654</u>	<u>702</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 26. Officers' Remuneration

The number of employees (including Senior Officers) whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below. This amount was increased in 2003/04 from £40,000 and has not been updated since.

Band £	Number of Employees					
	2015/16			2016/17		
	Schools	Other	Total	Schools	Other	Total
50,000 - 54,999	46	54	100	48	48	96
55,000 - 59,999	28	36	64	30	25	55
60,000 - 64,999	24	4	28	23	11	34
65,000 - 69,999	13	4	17	14	8	22
70,000 - 74,999	3	5	8	6	8	14
75,000 - 79,999	4	3	7	5	3	8
80,000 - 84,999	3	2	5	4	5	9
85,000 - 89,999	1	5	6	2	3	5
90,000 - 94,999	2	2	4	0	3	3
95,000 - 99,999	2	2	4	1	2	3
100,000 - 104,999	0	1	1	2	2	4
105,000 - 109,999	0	2	2	0	1	1
110,000 - 114,999	0	0	0	0	1	1
115,000 - 119,999	0	0	0	0	0	0
120,000 - 124,999	0	2	2	0	1	1
125,000 - 129,999	0	1	1	0	1	1
130,000 - 134,999	0	1	1	0	1	1
135,000 - 139,999	0	0	0	0	0	0
140,000 - 144,999	0	0	0	0	0	0
145,000 - 149,999	0	1	1	1	0	1
150,000 - 154,999	0	0	0	0	1	1
165,000 - 169,999	0	1	1	0	1	1
	<b>126</b>	<b>126</b>	<b>252</b>	<b>136</b>	<b>125</b>	<b>261</b>

#### a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of Regulation 7 of the Accounts and Audit (England) Regulations 2011. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2015/16.

## NOTES TO THE CORE FINANCIAL STATEMENTS

**2016/17**

<u>Post Holder</u>	<u>Salary (including fees &amp; allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2016/17</u>	<u>Pensions contributions (see Note 7)</u>	<u>Total Remuneration including pension contributions 2016/17</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b> - Dawn Baxendale	168,454	-	-	-	168,454	22,068	190,521
<b>Chief Strategy Officer</b> - Suki Sitaram	123,078	84	-	-	123,162	16,123	139,285
<b>Chief Operations Officer</b> until 31/12/2016 - Mark Heath (see note 1)	101,016	-	30,848	-	131,863	268,092	399,955
<b>Chief Operations Officer</b> from 01/11/2016 - Richard Crouch	55,009	-	-	-	55,009	7,206	62,215
<b>Service Director Children &amp; Families</b> until 18/11/2016 - Kim Drake (see note 2)	99,215	54	-	-	99,269	9,454	108,723
<b>Acting Director of Adult Social Services</b> from 01/10/2016 - Carole Binns (see note 3)	44,199	-	-	-	44,199	5,790	49,989
<b>Acting Director of Public Health</b> until 31/03/2017 - Bob Coates	128,646	-	-	-	128,646	15,899	144,544
<b>Joint Director of Public Health</b> from 09/01/2017 - Jason Horsley (see note 4)	23,315	-	-	-	23,315	3,054	26,370
<b>Service Director Legal &amp; Governance</b> - Richard Ivory	110,074	1,888	-	-	111,962	14,420	126,382
<b>Service Director Finance &amp; Commercialisation</b> - Mel Creighton	103,141	204	-	-	103,345	13,511	116,857
	<b>956,147</b>	<b>2,231</b>	<b>30,848</b>	<b>-</b>	<b>989,225</b>	<b>375,617</b>	<b>1,364,842</b>

**Note 1**

Pension contributions include £255,121 in respect of early retirement.

**Note 2**

Between 05/01/2017 and 31/03/2017 this role was undertaken by Hilary Brooks via an external company. Payment for this period was £38,546 excluding VAT.

**Note 3**

Between 01/04/2016 and 30/09/2016 this role was undertaken by Derek Law via an external company. Payment for this period was £136,559 excluding VAT.

**Note 4**

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

**Note 5**

Between 01/04/2016 and 31/03/2017 the role of Interim Transformation & Implementation Director was undertaken by Stephen Giacchino via an external company. Payment for this period was £167,147 excluding VAT.

**Note 6**

There were no bonuses paid.

**Note 7**

In 2016/17 the employer's contribution rate for the Local Government Pension Scheme was 13.1%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

**2015/16**

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

**Note 1**

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

**Note 2**

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

**Note 3**

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

**Note 4**

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

**Note 5**

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

**Note 6**

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

**Note 7**

There were no bonuses paid.

**Note 8**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £5.7M (£3.0M 2015/16) 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 (including special payments)</u>	<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>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u> £000	<u>2016/17</u> £000
£0-£20,000	21	38	60	58	81	96	823	977
£20,001-£40,000	5	8	30	30	35	38	989	1,002
£40,001-£60,000	2	4	12	6	14	10	660	490
£60,001-£80,000	1	5	8	6	9	11	623	776
£80,001-£100,000	0	1	0	2	0	3	0	264
£100,001-£150,000	0	2	2	7	2	9	246	1,107
£150,000+	0	1	1	4	1	5	155	1,043
<b>Total</b>	<b>29</b>	<b>59</b>	<b>113</b>	<b>113</b>	<b>142</b>	<b>172</b>	<b>3,496</b>	<b>5,659</b>

### 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>2015/16</u> £000	<u>2016/17</u> £000
143 Fees payable to Ernst Young with regard to external audit services carried out by the appointed auditor for the year	143
25 Fees payable to Ernst Young in respect of grant claims and returns for the year	19
9 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	8
<b>177</b>	<b>170</b>

### 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:

<u>Details of the Deployment of DSG Receivable for 2016/17 are as Follows:</u>			
	<u>Central Expenditure</u> £000	<u>Individual Schools Budget</u> £000	<u>Total</u> £000
Final DSG for 2016/17 before Academy recoupment			167,228
Academy figure recouped for 2016/17			(40,257)
<b>Total DSG after Academy Recoupment for 2015/16</b>			<b>126,971</b>
Plus: Brought forward from 2015/16			<b>376</b>
Agreed initial budgeted distribution in 2016/17	<b>13,012</b>	<b>114,335</b>	<b>127,347</b>
In year adjustments		(199)	(199)
<b>Final Budgeted Distribution for 2015/16</b>	<b>13,012</b>	<b>114,136</b>	<b>127,148</b>
Less: Actual central expenditure	(12,650)		(12,650)
Less: Actual ISB deployed to schools		(113,702)	(113,702)
<b>Carry Forward to 2016/17</b>	<b>362</b>	<b>434</b>	<b>796</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 29. Related Parties

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

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and Teachers' Pension Agency as disclosed in Note 34 (Defined Benefit Pension Schemes); Hampshire Police Authority precept of £9.7M and Hampshire Fire & Rescue Authority precept of £3.8M, shown in the Collection Fund Accounts, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants.

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

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

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

### Amounts Due to or from Related Parties

As at 31 March 2017, significant monies outstanding from related parties were:

<u>2015/16</u>		<u>2016/17</u>
	<u>Money Owed to SCC</u>	
<b>£000</b>		<b>£000</b>
4,944	HM Revenues & Customs (VAT)	5,220
407	Hampshire County Council	546
<u>5,351</u>	<b>Balance Carried forward</b>	<u>5,766</u>
	* Non material balances removed from previous years figures	

There are no doubtful debts included within these figures.

In contrast the Council owed money in respect of:

<u>2015/16</u>		<u>2016/17</u>
	<u>Money Owed by SCC</u>	
<b>£000</b>		<b>£000</b>
14,343	Department for Communities & Local Government	13,845
1,815	HM Revenue & Customs (PAYE & National Insurance)	2,901
2,127	Department for Work & Pensions (DWP)	810
2,109	Hampshire County Council	1,619
3,346	Hampshire County Council (Local Government Pensions)	3,842
1,902	NHS Southampton Clinical Commissioning Group	851
<u>25,642</u>	<b>Balance Carried forward</b>	<u>23,868</u>
	* Non material balances removed from previous years figures	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b><u>2015/16</u></b>	<b><u>2016/17</u></b>
	<b>£000</b>	<b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>427,642</b>	<b>435,745</b>
<b>Capital Investment</b>		
Intangible assets	639	2,524
Property Plant & Equipment	66,379	80,319
Revenue Expenditure Funded from Capital under Statute	8,843	8,079
Investment Properties	9	29,688
Financial Instruments	20	0
HRA Self Financing	0	0
Capital Receipts	(5,192)	(9,217)
Government grants & other contributions	(27,223)	(24,275)
HRA Depreciation (formerly Major Repairs Allowance)	(19,832)	(18,894)
Direct Revenue Financing	(7,913)	(9,674)
MRP	(7,558)	(8,487)
Use of Capital Receipts to Repay Loans		
HRA Depreciation - Non Dwellings	(69)	
<b>Closing Capital Financing Requirement</b>	<b><u>435,745</u></b>	<b><u>485,808</u></b>
<b>Explanation of Movements in Year</b>		
Increase in underlying need to borrow (unsupported by Government financial assistance)	15,730	58,550
MRP	(7,558)	(8,487)
HRA Depreciation - Non Dwellings	(69)	0
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b><u>8,103</u></b>	<b><u>50,063</u></b>

### 31. Leases

#### a) Council as a Lessor

##### Operating Leases

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

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

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

	<b><u>31 March</u></b>	<b><u>31 March</u></b>
	<b><u>2016</u></b>	<b><u>2017</u></b>
	<b>£000's</b>	<b>£000's</b>
Not later than one year	5,836	6,902
Later than one year and not later than five years	17,630	21,039
Later than five years	497,069	488,928
	<b><u>520,535</u></b>	<b><u>516,869</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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. All three schools are open.

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

##### Hampshire Waste Contract

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

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

In 1996 the Council (11.48%) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under IFRIC 12 Service Concessions.

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

##### PFI Street Lighting

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Off Balance Sheet

#### BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

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

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

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
<b>Cost or Valuation</b>		<b>£000</b>	<b>£000</b>	
At 1 April 2016	58,379	10,966	25,819	95,164
Additions			0	0
Disposals				0
Revaluations				0
Impairments				0
<b>At 31 March 2017</b>	<b>58,379</b>	<b>10,966</b>	<b>25,819</b>	<b>95,164</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2016	(7,961)	(1,933)	(2,159)	(12,053)
Depreciation Charge for the Year	(1,327)	(644)	(861)	(2,832)
Disposals				0
Revaluations				0
Impairments				0
<b>At 31 March 2017</b>	<b>(9,288)</b>	<b>(2,577)</b>	<b>(3,020)</b>	<b>(14,885)</b>
<b>Balance Sheet amount at 31 March 2017</b>	<b>49,091</b>	<b>8,389</b>	<b>22,799</b>	<b>80,279</b>
<b>Balance Sheet amount at 31 March 2016</b>	<b>50,418</b>	<b>9,033</b>	<b>23,660</b>	<b>83,111</b>

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>
		<b>£000</b>	<b>£000</b>	
Balance 1 April 2016	32,941	8,707	23,139	64,787
New Schemes in 2016/17			0	0
Repayments	(1,489)	(790)	(247)	(2,526)
<b>Balance 31 March 2017</b>	<b>31,452</b>	<b>7,917</b>	<b>22,892</b>	<b>62,261</b>
<b>Due within 1 Year</b>				
Balance 1 April 2016	1,489	790	247	2,526
Repayments	(1,489)	(790)	(247)	(2,526)
Due within 1 Year	689	853	299	1,841
<b>Balance 31 March 2017</b>	<b>689</b>	<b>853</b>	<b>299</b>	<b>1,841</b>
<b>Long Term Creditor Balance 31 March 2017</b>	<b>30,763</b>	<b>7,064</b>	<b>22,593</b>	<b>60,420</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>PFI - Schools</u>			<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	689	2,673	3,181	853	633	6,088	299	2,525	1,175	18,116
within 2 to 5 years	5,848	9,842	13,204	4,152	1,794	25,656	1,860	9,681	5,026	77,063
within 6 to 10 years	10,277	9,034	20,363	2,913	424	23,978	4,447	10,496	7,077	89,009
within 11 to 15 years	14,637	3,621	20,557				8,351	7,158	8,080	62,404
within 16 to 20 years	0	0	0				7,935	1,609	5,386	14,930
<b>Balance 31 March 2017</b>	<b>31,451</b>	<b>25,170</b>	<b>57,305</b>	<b>7,918</b>	<b>2,851</b>	<b>55,722</b>	<b>22,892</b>	<b>31,469</b>	<b>26,744</b>	<b>261,522</b>

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

	<u>BUPA Care Homes</u>		<u>Total</u>
	<u>Northlands</u>	<u>Oak Lodge</u>	
	£000	£000	£000
within 1 year	2,214	1,466	3,680
within 2 to 5 years	8,854	5,865	14,719
within 6 to 10 years	11,067	7,332	18,399
within 11 to 15 years	3,697	7,331	11,028
within 16 to 20 years		4,179	4,179
<b>Balance 31 March 2017</b>	<b>25,832</b>	<b>26,173</b>	<b>52,005</b>

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

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Total</u>
	£000	£000	£000	£000
PFI Schools	1,489	2,799	2,163	6,451
Hampshire Waste	790	697	5,962	7,449
PFI Street Lighting	247	2,553	1,145	3,945
BUPA Care Homes				
Northlands			2,178	2,178
Oak Lodge			1,447	1,447
<b>Totals</b>	<b>2,526</b>	<b>6,049</b>	<b>12,895</b>	<b>21,470</b>

### 33. Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2016/17 the City Council paid £7.6M to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.4% of pensionable pay. The figures for 2015/16 were £7.0M and 15.4%. There were no contributions remaining payable at the year end.

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

### 34. Defined Benefit Pension Schemes

#### a) Participation in Pension Schemes

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

The Council participates in two post employment schemes:

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

#### b) Transactions Relating to Post-employment Benefits

In 2016/17 the Council paid an employer's contribution of £24.9M (2015/16 - £22.0M) into Hampshire County Council's Pension Fund. The employer's rate for 2016/17 is 13.1% of employees' pay plus a fixed payment. This fixed payment was calculated by the actuary for the Hampshire County Council pension fund and is equivalent to 6.0% of the value of the payroll as at 31 March 2010 adjusted for Schools transfers and inflation.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £25.3M.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Local Government Pension Scheme</u>		<u>Discretionary Benefits Arrangements</u>		<u>Totals</u>	
	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2016/17</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Comprehensive Income and Expenditure Statement</b>						
<i>Cost of Services</i>						
Current service costs	21,090	23,150	0	0	21,090	23,150
Past service costs	960	2,590	0	0	960	2,590
Settlements and curtailments						
<i>Financing and Investment Income and Expenditure</i>						
Net Interest on the defined benefit liability (asset)	10,970	10,870	1,190	1,180	12,160	12,050
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>33,020</b>	<b>36,610</b>	<b>1,190</b>	<b>1,180</b>	<b>34,210</b>	<b>37,790</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>						
Actuarial (Gains) / Losses	(34,740)	42,230	(1,330)	3,000	(36,070)	45,230
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(1,720)</b>	<b>78,840</b>	<b>(140)</b>	<b>4,180</b>	<b>(1,860)</b>	<b>83,020</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made for retirement benefits in accordance with the Code	(33,020)	(36,610)	(1,190)	(1,180)	(34,210)	(37,790)
<b>Actual amount charged against the General Fund Balance for Pensions in the Year:</b>						
Employers' contributions payable to scheme	<b>19,640</b>	<b>22,530</b>			<b>19,640</b>	<b>22,530</b>
Retirement benefits payable to pensioners			<b>2,360</b>	<b>2,370</b>	<b>2,360</b>	<b>2,370</b>

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2017 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 £425.0M (2015/16 £366.8M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Present value of funded Liabilities in scheme (LGPS)	937,560	852,250	970,970	956,240	1,158,160
Present value of unfunded liabilities (Teachers & LGPS)	39,260	37,550	38,340	35,840	37,650
Total present value of liabilities	976,820	889,800	1,009,310	992,080	1,195,810
Fair value of Share of Assets in the Fund (as per Accounts)	(558,620)	(558,410)	(618,610)	(625,240)	(770,850)
<b>Net (Asset) / Liability</b>	<b>418,200</b>	<b>331,390</b>	<b>390,700</b>	<b>366,840</b>	<b>424,960</b>

### d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2016. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2017.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciliation of Present Value of Scheme Liabilities

<u>Unfunded</u>	<u>Funded</u>		<u>Unfunded</u>	<u>Funded</u>
<u>2015/16</u>	<u>Liabilities</u>		<u>2016/17</u>	<u>Liabilities</u>
<u>£000</u>	<u>2015/16</u>		<u>£000</u>	<u>2016/17</u>
	<u>£000</u>			<u>£000</u>
38,340	970,970	Opening Balance at 1 April	35,840	956,240
	21,090	Current Service Cost		23,150
1,190	30,730	Interest costs	1,180	32,110
	6,130	Contributions by Participants		6,310
(660)	(9,390)	Actuarial (Gains)/ Losses on liabilities - experience	700	(26,170)
0	0	Actuarial (Gains)/ Losses on liabilities - demographic assumptions	(920)	(10,360)
(670)	(36,290)	Actuarial (Gains)/ Losses liabilities on - financial assumptions	3,220	204,480
(2,360)	(27,960)	Net Benefits Paid Out	(2,370)	(30,190)
-	960	Past Service Costs (added years)		2,590
<b>35,840</b>	<b>956,240</b>	<b>Closing Balance at 31 March</b>	<b>37,650</b>	<b>1,158,160</b>

### Reconciliation of Fair Value of Schemes Assets

<u>2015/16</u>		<u>2016/17</u>
<u>£000</u>		<u>£000</u>
(618,610)	Opening Balance at 1 April	(625,240)
(19,760)	Interest Income on plan assets	(21,240)
10,940	Actuarial (Gains)/ Losses on plan assets	(125,720)
(19,640)	Contributions	(22,530)
(6,130)	Contributions by participants	(6,310)
27,960	Net benefits paid out	30,190
<b>(625,240)</b>	<b>Closing Balance 31 March</b>	<b>(770,850)</b>

### e) Basis for Estimating Assets and Liabilities

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

	<u>2015/16</u>	<u>2016/17</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	24.6	24.0
Women	26.4	27.0
Longevity at 65 for future pensioners (currently aged 45):		
Men	26.7	26.0
Women	28.7	29.3
RPI Inflation	2.9%	3.1%
CPI Inflation	1.8%	2.0%
Rate of general long-term increase in salaries	3.3%	3.5%
Rate of increase in pensions in payment	1.8%	2.0%
Pension accounts revaluation rate	1.8%	2.0%
Rate of increase to deferred pensions	1.8%	2.0%
Discount rate	3.4%	2.6%
Commutation:		
Take-up option to convert maximum amount permitted (including any lump sum from pre 2008 service) pension entitlements	70.0%	70.0%

### 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Asset Split at 31 March 2016			Asset Split at 31 March 2017		
	Quoted (%)	Unquoted (%)	Total (%)	Quoted (%)	Unquoted (%)	Total (%)
Equities	52.9	3.4	56.3	56.8	3.5	60.3
Property	0.9	7.3	8.2	0.5	6.0	6.5
Government Bonds	25.7	0.0	25.7	25.0	0.2	25.2
Corporate Bonds	2.0	0.1	2.1	1.4	0.0	1.4
Cash	4.7	0.0	4.7	3.4	0.0	3.4
Other Assets	-0.2	3.2	3.0	0.0	3.2	3.2
<b>Total</b>	<b>86.0</b>	<b>14.0</b>	<b>100.0</b>	<b>87.1</b>	<b>12.9</b>	<b>100.0</b>

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

The actuarial gains/losses, following changes to IAS19, are identified as movements on the pensions Reserve in 2016/17 and analysed into appropriate categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2017.

	Actuarial (Gain)/ Loss for Year										
	2012/13 Restated		2013/14		2014/15		2015/16		2016/17		
	£000	%	£000	%	£000	%	£000	%	£000	%	
Actuarial (Gains)/ Losses on plan assets	(49,690)	(8.9)	24,920	4.5	(37,200)	(6.0)	10,940	1.7	(125,720)	(16.3)	of scheme assets
Actuarial (Gains)/ Losses on liabilities - experience	(620)	(0.1)	(57,690)	(6.5)	(5,940)	(0.6)	(10,050)	(1.0)	(25,470)	(2.1)	of scheme liabilities
Actuarial (Gains)/ Losses on liabilities - demographic assumptions	0	0.0	(18,940)	(2.1)	0	0.0	0	0.0	(11,280)	(0.9)	of scheme liabilities
Actuarial (Gains)/ Losses liabilities on - financial assumptions	68,500	7.0	(54,380)	(6.1)	88,740	8.8	(36,960)	(3.7)	207,700	17.4	of scheme liabilities
	<u>18,190</u>		<u>(106,090)</u>		<u>45,600</u>		<u>(36,070)</u>		<u>45,230</u>		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2017 is a loss of £259.5M.

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

### 35. Contingent Liabilities/ Assets

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

#### a) Health and Safety - Asbestos

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

### 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 2016/17 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationships:

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capita Southampton Ltd (CSL)

As part of the review of the partnership arrangement with the Councils strategic partner Capita, a new company has been set up to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. The purpose of this is to provide greater transparency of costs and benefits to the Council for the services received.

The key arrangements for the new company are as follows:

- The new company was incorporated on 31<sup>st</sup> May 2016 and became operational on 1<sup>st</sup> October 2016;
- Southampton City Council holds 20% of the equity shares in the company;
- There are 7 directors, of which 3 are Council directors;
- Quorum at meetings is 2 directors from both the Council and Capita;
- Decisions are made by majority vote;
- The company does not hold any assets; and
- Whilst the purpose of the company is transparency of costs, any efficiency savings generated accrue 50:50 to both parties in the first two years, with 100% accruing to the Council there after.

A review of CSL indicates an associate, which would require the company to be accounted for in group accounts using the equity method, i.e. showing an investment at the initial cost of the investment, plus increases due to year-end share in the net assets of the company. There are no net assets associated with this company and the initial investment was £20.

### PSP Southampton LLP

Southampton City Council on the 15<sup>th</sup> of September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes.
- A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

A review of PSP indicates a joint venture, which requires to be accounted as for an associate, the initial investment £1, and share of the net assets of the company at 30 April 2017 was approximately £700k

Having given due consideration to the qualitative and quantitative aspects of materiality, SCC conclude 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

<u>2015/16</u>		<u>2016/17</u>
£000		£000
(21,932)	Balance Brought Forward	(25,028)
(24,335)	Amounts Received in Year	(15,677)
21,239	Amounts Applied to Finance Capital in year	16,974
<u>(25,028)</u>	<b>Balance Carried forward</b>	<u>(23,731)</u>

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

<u>2015/16</u>		<u>2016/17</u>	<u>2016/17</u>
£000		£000	£000
	<b>Grants</b>		
	Department for Children, Schools and Families		
	Framework Academies	(50)	
(3,593)	Basic Need Grant	(5,743)	
(1,459)	Targeted Capital Fund	0	
(977)	Schools Devolved Formula Grant	(492)	
(2,239)	Capital Maintenance Grant	(1,602)	
(543)	Other	(927)	
<u>(8,811)</u>			<u>(8,814)</u>
(1,109)	Department of Health		0
(2,639)	Department for Communities and Local Government		(5,009)
(1,117)	Department for Environment, Food and Rural Affairs		(17)
(30)	Heritage Lottery Fund		(6)
(7,725)	Department for Transport		(4,251)
0	Homes & Communities Agency		(1,350)
(2,655)	Arts Council		0
(45)	Other		0
<u>(24,131)</u>			<u>(19,447)</u>
<u>(6,777)</u>	<b>Contributions</b>		<u>(6,062)</u>
<u>(30,908)</u>	<b>Total</b>		<u>(25,509)</u>
<u>(22,358)</u>	<b>Credited to Capital Grants and Contributions CIES</b>		<u>(18,079)</u>
<u>(8,550)</u>	<b>Credited to Cost of Services</b>		<u>(7,430)</u>
<u>(30,908)</u>	<b>Total</b>		<u>(25,509)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2015/16</u> £000		<u>2016/17</u> £000
	<b>General Government Grants</b>	
(42,864)	Revenue Support Grant	(32,539)
(1,654)	Housing and Council Tax Benefit Grant	(1,604)
(4,503)	DCLG - New Homes Bonus Scheme	(6,074)
(2,375)	Education Services Grant	(1,651)
(2,208)	Section 31 Grants	(1,702)
(1,076)	Other	(1,105)
<b>(54,680)</b>		<b>(44,675)</b>
	<b>Credited to Services</b>	
(123,506)	Dedicated Schools Grant (DSG)	(126,971)
(16,130)	Public Health Grant	(17,929)
(112,962)	Housing Benefit Grant	(107,789)
(9,317)	Pupil Premium	(9,343)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(1,060)	Local Sustainable Transport Fund	(48)
(4,066)	Other Grants	(6,968)
<b>(272,900)</b>		<b>(274,907)</b>

### 38. Non-Domestic Rates Redistribution

Business Rate Retention has been implemented from 1 April 2013

<u>2015/16</u> £000	Non Domestic Rates Redistribution	<u>2016/17</u> £000
(46,505)	SCC Retained Business Rates	(47,480)
(3,370)	SCC Share of (Surplus)/ Deficit	(2,202)
(1,609)	Top Up Payment	(1,622)
<b>(51,484)</b>		<b>(51,304)</b>

### 39. Pooled Budgets

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

#### Better Care Fund

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

The formal S75 partnership agreement entered into by CCG and Southampton City Council and the establishment of the Commissioning Partnership Board as the joint body overseeing the governance and operation of the activities. A memorandum of accounts will be produced by the host body for each of the schemes within the S75 partnership.

### Supported Carers

This scheme is hosted by the LA, with 91% contributions from CCG and 9% from LA. Although the CCG is the majority contributor, the statutory responsibilities in this area remain with the LA and therefore they were considered to be the most appropriate host. The services commissioned under this scheme include CCG contracts with private sector providers; LA contracts with 3<sup>rd</sup> sector providers and LA in-house provision.

<u>2015/16</u>		<u>2016/17</u>	
£000	Better Care Fund, Carers Service	£000	
	<b>Funding - Contributions / Grants</b>		
0	Brought Forward	0	
(124)	Southampton City Council	(118)	
(1,170)	Southampton Clinical Commissioning Group	(1,208)	
<b>(1,294)</b>		<b>(1,326)</b>	
1,294	<b>Expenditure</b>	1,326	
<b>0</b>	<b>Carried Forward</b>	<b>0</b>	

### Cluster Development

This scheme is hosted by the CCG, with 96% contributions from CCG and 4% from LA. The services commissioned under this scheme include CCG contracts with NHS providers; CCG contracts with independent sector providers, GPs and the 3<sup>rd</sup> sector; and LA in-house provision (funded by the CCG, these were previously S256 agreements).

<u>2015/16</u>		<u>2016/17</u>	
£000	Better Care Fund, Clusters Service	£000	
	<b>Funding - Contributions / Grants</b>		
0	Brought Forward	0	
(149)	Southampton City Council	(1,393)	
(30,315)	Southampton Clinical Commissioning Group	(32,578)	
<b>(30,464)</b>		<b>(33,971)</b>	
30,464	<b>Expenditure</b>	33,971	
<b>0</b>	<b>Carried Forward</b>	<b>0</b>	

### Re-ablement and Rehabilitation

This scheme is hosted by the CCG, with 80% contributions from CCG and 20% from LA. The services commissioned under this scheme include CCG contracts with NHS Providers; CCG contracts with independent sector providers; LA in-house provision (some of which were previously S256 agreements).

<u>2015/16</u>		<u>2016/17</u>	
£000	Better Care Fund, Rehab and Reablement Service	£000	
	<b>Funding - Contributions / Grants</b>		
0	Brought Forward	0	
(2,822)	Southampton City Council	(5,841)	
(24,766)	Southampton Clinical Commissioning Group	(23,221)	
<b>(27,588)</b>		<b>(29,062)</b>	
27,588	<b>Expenditure</b>	29,062	
<b>0</b>	<b>Carried Forward</b>	<b>0</b>	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Residential, Domiciliary Care & Continuing Care Services

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

<u>2015/16</u>		<u>2016/17</u>
£000	Locality Based Hospital Units	£000
	<b>Funding - Contributions / Grants</b>	
(6)	Brought Forward	(9)
(1,669)	Southampton City Council	(1,672)
<u>(1,737)</u>	Southampton Clinical Commissioning Group	<u>(1,740)</u>
<b>(3,412)</b>		<b>(3,421)</b>
<u>3,403</u>	<b>Expenditure</b>	<u>3,421</u>
<u><b>(9)</b></u>	<b>Carried Forward</b>	<u><b>0</b></u>

## 40. Trust and Other Funds

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

The main legacies are:

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

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

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

Other funds are:

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

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>
	£000	£000	£000
Chipperfield Trust	(0)	0	(171)
LC Smith Bequest	(0)	0	(34)
Miss Orris Bequest	0	36	(48)
Aldridge Bequest	(9)	0	(208)
Minor Trust Funds	(0)	0	(39)
<b>Trust Funds Total</b>	<u>(9)</u>	<u>36</u>	<u>(500)</u>
Wessex Slaughterhouse Board			(93)
<b>Total</b>	<u><b>(9)</b></u>	<u><b>36</b></u>	<u><b>(593)</b></u>

## HOUSING REVENUE ACCOUNT

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

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

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

### Comprehensive Income and Expenditure Statement

<u>2015/16</u>		<u>2016/17</u>
£000	<u>Expenditure</u>	Notes
15,417	Repairs and Maintenance	12,722
16,384	Supervision and Management	15,739
7,422	Special Services	7,551
3,778	Rents, Rates, Taxes and Other Charges	4,311
19,901	Depreciation	7 18,894
(53,865)	(Revaluation) / Impairment of non-current assets	7 (39,363)
38	Debt management costs	48
340	Movement in the allowance for bad debts	454
<b>9,415</b>	<b>Total Expenditure</b>	<b>20,356</b>
	<b>Income</b>	
(73,397)	Dwellings Rent	1 (72,497)
(1,128)	Non-Dwelling Rents	(1,163)
(5,007)	Tenant Charges for Services & Facilities	(5,413)
(974)	Leaseholder Charges for Services & Facilities	(943)
(894)	Contributions Towards Expenditure	(877)
<b>(81,400)</b>	<b>Total Income</b>	<b>(80,893)</b>
	Net Expenditure of HRA Services as included in the	
(71,985)	Comprehensive Income and Expenditure Statement	(60,537)
379	HRA services' share of Corporate and Democratic Core	440
<b>(71,606)</b>	<b>Net Expenditure/ (Income) for HRA Services</b>	<b>(60,097)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(3,973)	(Gain) or loss on the sale of HRA non-current assets	(4,786)
(71)	Investment Property Revaluation Movements	7 98
5,117	Interest payable and similar charges	5,154
(24)	Interest and investment income	(28)
1,490	Pensions interest cost and expected return on pension assets	10 1,343
(748)	Capital grants and contributions receivable	(1,793)
<b>(69,815)</b>	<b>(Surplus) / Deficit for the Year on HRA Services</b>	<b>(60,109)</b>

## HOUSING REVENUE ACCOUNT

### Statement of Movement on the HRA Balance

<u>2015/16</u> £000		<u>2016/17</u> £000
(2,000)	Balance on the HRA at the end of the previous year	(2,000)
(69,815)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(60,109)
69,815	Adjustments between accounting basis and funding basis under statute	59,109
0	(Increase) or decrease in the Housing Revenue Account balance before transfers to or from reserves.	(1,000)
<u>(2,000)</u>	<b>Housing Revenue Account Surplus Carried Forward</b>	<u>(3,000)</u>

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

<u>2015/16</u> £000		<u>2016/17</u> £000
	<b>Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA</b>	
748	Capital grants and contributions applied	1,780
0	Capital grants and contributions unapplied	13
3,973	Gain or (loss) on the sale of HRA non-current assets	4,786
(13)	Amortisation of Item 8 Discount	(13)
53,865	Impairment and Revaluation of Non Current Assets	39,363
71	Impairment and Revaluation of Investment Properties	(98)
(4,192)	Net Charges made for retirement benefits in accordance with	(4,213)
<u>54,452</u>		<u>41,618</u>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>	
19,832	Transfer to Major Repairs Reserve	18,894
(19,832)	Amount equal to HRA Depreciation transferred from the CAA	(18,894)
2,696	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,776
5,135	Principal Repayments	5,592
<u>7,532</u>	Capital Expenditure funded by the HRA	<u>9,123</u>
<u>15,363</u>		<u>17,491</u>
<u>69,815</u>	<b>Net Additional Amount Required by Statute to be Debited or (Credited) to the HRA Balance for the Year</b>	<u>59,109</u>

## HOUSING REVENUE ACCOUNT

### 1. Council House Rents

At 31 March 2017, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 4.42% (31 March 2015 – 3.91%). The total arrears were £2.936M (31 March 2016 - £2.687M). Rents written off during the year amounted to £308,000 (last year £375,000).

The main sources of rent income after allowing for voids of £0.98M (last year £1.30M) are set out in the following table:

<u>2015/16</u> £000		<u>2016/17</u> £000
32,306	Rent met by Tenants	33,373
41,091	Rent Rebates	39,124
<u>73,397</u>		<u>72,497</u>

### 2. Major Repairs Reserve

<u>Total</u> <u>2015/16</u> £000		<u>Land</u> <u>2016/17</u> £000	<u>Dwellings</u> <u>2016/17</u> £000	<u>Other</u> <u>2016/17</u> £000	<u>Total</u> <u>2016/17</u> £000
0	Opening Balance	0	0	0	0
(19,832)	Receipts in Year	0	(18,894)	0	(18,894)
19,832	Payments in Year	0	18,894	0	18,894
<u>0</u>	<b>Closing Balance</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

### 3. Housing Stock

During the year 1.47% (1.76% for 2015/16) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent was £85.94 a week (£86.85 for 2015/16). The stock at the year-end was made up as follows:

<u>Number of Properties Held</u>		<u>2015/16</u>	<u>2016/17</u>
16,562	Stock at 1st April		16,315
(117)	Less: Sales		(173)
0	Plus: Purchases		84
(130)	Other/Demolitions		2
<u>16,315</u>	<b>Stock at 31st March</b>	<u>16,315</u>	<u>16,228</u>
	<u>Consisting of :</u>		
5,190	Houses		5,109
11,109	Flats		11,103
16	Bungalows		16
<u>16,315</u>		<u>16,315</u>	<u>16,228</u>

# HOUSING REVENUE ACCOUNT

## 4. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2015/16</u>		<u>2016/17</u>
<u>£000</u>		<u>£000</u>
38,818	Housing Stock	50,945
	Other Property	250
<u>38,818</u>	<b>Total Capital Expenditure</b>	<u>51,195</u>
<u>Capital Expenditure Source of Finance</u>		
<u>£000</u>		<u>£000</u>
4,695	Capital Receipts	6,568
0	Grants	1,350
19,833	Transfer from Major Repairs Reserves	18,894
748	Contributions	430
7,532	Direct Revenue Funding	9,123
6,010	Unsupported Borrowing	14,830
<u>38,818</u>	<b>Total Financing</b>	<u>51,195</u>

## 5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need. In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules have changed to allow local authorities to retain receipts that exceed a predetermined set level. Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2016/17 the Council received £6.40M from right to buy sales that can be utilised on new build affordable housing projects.

<u>2015/16</u>		<u>2016/17</u>
<u>£000</u>		<u>£000</u>
7,127	Opening Balance at 1 April	8,558
	Receipts in Year:-	
	Sale of Assets	
6,825	Council Housing	11,691
1,962	Land, Buildings & Equipment	844
29	Repayment of Advances	0
<u>15,943</u>		<u>21,093</u>
(146)	Allowable deduction arising from Disposal	(217)
<u>15,797</u>		<u>20,876</u>
	Application in Year:-	
(466)	Inter Portfolio Transfer	(470)
(4,695)	Financing of new HRA Capital Expenditure	(6,568)
(1,218)	Pooled Receipts	(1,171)
(860)	Other Adjustments	(883)
<u>8,558</u>	Closing Balance at 31 March	<u>11,784</u>

## 6. Impairment Allowance for Bad Debts

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

<u>2015/16</u>		<u>2016/17</u>
<u>£000</u>		<u>£000</u>
342	MRC Bad Debt Provision	240
1,808	Rents Bad Debt Provision	1,922
<u>2,150</u>		<u>2,162</u>

## HOUSING REVENUE ACCOUNT

### 7. Property Plant and Equipment

The Department of the Environment, Transport and the Regions (DETR) Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail in **Note 1q) (Accounting Policies)**. The factor used for 2016/17 is 33% (2015/16 - 32%)

The vacant possession value of Council Housing within the Council's HRA as at 1 April 2016 was £1,824M, 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 2017.

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

<b>Movements in Fixed Assets During 2016/17</b>							
	<b>Property, Plant and Equipment (PPE)</b>			<b>Assets Held</b>	<b>Investment</b>	<b>Total</b>	
	<b>Council</b>	<b>Other Land</b>	<b>Vehicles, Plant</b>	<b>for Sale</b>			
	<b>Dwellings</b>	<b>and Buildings</b>	<b>and Equipment</b>				
	£000	£000	£000	£000	£000	£000	
<b>Cost or Valuation</b>							
At 1 April 2016	597,018	4,465		601,483		7,851	
Additions	50,946	250		51,196			
Disposals	(7,094)	(210)		(7,304)		(228)	
Reclassifications	(1,261)	2,486		1,225		(2,455)	
Revaluations	19,293	238		19,531		(98)	
Impairments				0		0	
<b>At 31 March 2017</b>	<b>658,902</b>	<b>7,229</b>	<b>0</b>	<b>666,131</b>	<b>0</b>	<b>5,070</b>	
<b>Depreciation and Impairment</b>							
At 1 April 2016	(19,832)			(19,832)		0	
Depreciation charge for year	(18,894)			(18,894)			
Disposals				0			
Reclassifications				0			
Revaluations	19,832			19,832			
Impairments				0			
<b>At 31 March 2017</b>	<b>(18,894)</b>	<b>0</b>	<b>0</b>	<b>(18,894)</b>	<b>0</b>	<b>0</b>	
<b>Balance Sheet amount at 31 March 2017</b>	<b>640,008</b>	<b>7,229</b>	<b>0</b>	<b>647,237</b>	<b>0</b>	<b>5,070</b>	
<b>Balance Sheet amount at 31 March 2016</b>	<b>577,186</b>	<b>4,465</b>	<b>0</b>	<b>581,651</b>	<b>0</b>	<b>7,851</b>	
<b>Nature of Asset Holding</b>							
Owned	640,008	7,229	0	647,237	0	5,070	
Finance Lease							
PFI							
	<b>640,008</b>	<b>7,229</b>	<b>0</b>	<b>647,237</b>	<b>0</b>	<b>5,070</b>	

## HOUSING REVENUE ACCOUNT

### 8. Direct Revenue Financing Reserve

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

<u>2015/16</u> £000		<u>2016/17</u> £000
	<b>Direct Revenue Financing Reserve</b>	
0	Direct Revenue Financing Balance Brought Forward	0
(7,532)	Contribution From Revenue In Year	(9,123)
7,532	Applied for Capital	9,123
<u>0</u>	<b>Balance Carried Forward</b>	<u>0</u>

### 9. Minimum Revenue Provision (MRP)

A voluntary MRP payment of £5.6M was made in 2016/17 (£5.2M – 2015/16).

### 10. Pensions

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

<u>Local Government Pension Scheme</u>		
	<u>2015/16</u>	<u>2016/17</u>
	£000	£000
<b>Income and Expenditure Account</b>		
Net Cost of Service		
Current service costs	2,584	2,581
Past service costs	118	289
<i>Financing, Investment Income and Expenditure</i>		
Interest Cost	1,490	1,343
<b>Amounts to be Met from HRA</b>		
Movement on pensions reserve	(1,496)	(1,437)
<b>Actual Amount Charged Against HRA</b>		
Employer's contributions payable to scheme	<u>2,696</u>	<u>2,776</u>

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

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

<u>Item 8 Credit and Debit (General) Determination</u>		
<u>2015/16</u> £000		<u>2016/17</u> £000
(24)	Interest and Investment Income	(28)
53,936	Impairments and Revaluation of Fixed Assets	39,265
(13)	Amortisation of Item 8 Discount	(13)
<u>53,899</u>		<u>39,224</u>
<b>£000's</b>		
5,117	Interest payable and similar charges	5,154
19,901	Depreciation	18,894
(53,936)	Impairments and Revaluation of Fixed Assets	(39,265)
5,135	Principal Repayments	5,592
38	Debt management costs	48
<u>(23,745)</u>		<u>(9,577)</u>
<u>30,154</u>	<b>Net Item 8 (Credit)/ Debit</b>	<u>29,647</u>

## THE COLLECTION FUND

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

<b>Income and Expenditure for the Year Ended 31 March 2017</b>				
<b>2015/16</b>			<b>2016/17</b>	
<b>£000</b>	<b>Council Tax</b>		<b>Notes</b>	<b>£000</b>
	<b>Income</b>			
(93,962)	Income due from Council Tax Payers		2	(98,422)
	Transfers (to)/ from the General Fund			
(189)	- Hardship Relief			(200)
1	- Local Council Tax Discount			0
<u>(188)</u>				<u>(200)</u>
<b>(94,150)</b>				<b>(98,622)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax			
3,205	- Southampton City Council			873
384	- Hampshire Police Authority			105
153	- Hampshire Fire & Rescue Service			41
<u>3,742</u>				<u>1,019</u>
<b>(90,408)</b>	<b>Total Council Tax Income</b>			<b>(97,603)</b>
	<b>Expenditure</b>			
	Precepts			
77,269	- Southampton City Council Precept		4	81,011
9,255	- Hampshire Police Authority Precept		4	9,702
3,611	- Hampshire Fire & Rescue Authority Precept		4	3,785
<u>90,135</u>				<u>94,498</u>
	Bad and Doubtful Debts			
885	- Write Offs		6	1,361
512	- Provisions		6	48
<u>1,397</u>				<u>1,409</u>
<b>91,532</b>	<b>Total Council Tax Expenditure</b>			<b>95,907</b>
<b>1,124</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>			<b>(1,696)</b>
(3,270)	Council Tax - Deficit / (Surplus) Brought Forward			(2,146)
<b>(2,146)</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>			<b>(3,842)</b>
	<b>Business Rates</b>			
	<b>Income</b>			
(103,064)	Income Collectable from Business Ratepayers			(105,693)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR			
2,369	- Southampton City Council			3,011
2,417	- Central Government - DCLG			3,073
48	- Hampshire Fire & Rescue Service			61
<u>(98,230)</u>				<u>6,145</u>
<b>(98,230)</b>	<b>Total Business Rates Income</b>			<b>(99,548)</b>
	<b>Expenditure</b>			
417	- Payment to DCLG - Transitional Arrangements			(218)
47,453	- Payment to DCLG - Business Rate Retention			48,449
46,505	- SCC Business Rates Retention			47,480
949	- HFRA Precept			969
43	- Interest on Overpayments			1
314	- Costs of Collection		5	315
<u>95,681</u>				<u>96,996</u>
	Bad and Doubtful Debts			
581	- Write Offs		6	1,054
410	- Provisions		6	1,404
(485)	- Appeals Provision		7	1,746
<u>506</u>				<u>4,204</u>
<b>96,187</b>	<b>Total Business Rates Expenditure</b>			<b>101,200</b>
<b>(2,043)</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>			<b>1,652</b>
(5,784)	Business Rates - Deficit / (Surplus) Brought Forward			(7,827)
<b>(7,827)</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>			<b>(6,175)</b>
<b>(9,973)</b>	<b>Total Collection Fund (Surplus) / Deficit</b>			<b>(10,017)</b>

# THE COLLECTION FUND

## 1. Introduction

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

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

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

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

The scheme allows the Council to retain a proportion of the total NDR received. The Southampton share is 49% with the remainder paid to Central Government (50%) and Hampshire Fire and Rescue Authority (1%).

NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

## 2. Council Tax Base

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

The Council Tax base for was 62,366 (60,675 in 2015/16). The tax base for was calculated as follows:

<b>Council Tax Base</b>			
	<b><u>Net Chargeable</u></b>	<b><u>Relevant</u></b>	<b><u>Band D</u></b>
	<b><u>Dwellings</u></b>	<b><u>Proportion</u></b>	<b><u>Equivalents</u></b>
Band A Disabled	34	5/9	19
Band A	19,503	6/9	13,002
Band B	25,316	7/9	19,690
Band C	18,175	8/9	16,155
Band D	7,793	9/9	7,793
Band E	2,662	11/9	3,253
Band F	1,260	13/9	1,820
Band G	379	15/9	632
Band H	1	18/9	2
	<b><u>75,123</u></b>		<b><u>62,366</u></b>

Taking the total Band D equivalents of 62,366 and multiplying this by the standard Council Tax of £1,562.88 gives a total estimated income from taxpayers of £97.5M. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 96.95%, giving a net Council Tax Base of 60,464. Multiplying this by the standard Council tax of £1,562.88 gives the total precepts on the Collection Fund of £94.5M. (58,825 times by £1,532.26 - £90.1M 2015/16).

## THE COLLECTION FUND

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

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

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

Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. Southampton was deemed to be a top-up authority.

In addition to the top-up, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2016/17 estimated NDR Income of approximately £96.9M (£94.9M – 2015/16), £48.4M (£47.5M – 2015/16) payable to Central Government, £47.5M (£46.5M – 2015/16) retained by the Council, and £1.0M (£0.9M – 2015/16) payable to Hampshire Fire and Rescue Authority. The Rateable Value on 31 March 2017 was £253.0M and the Business Rate Multiplier for the year 48.4p in the £, giving gross rates before reliefs of £122.5M.

### 4. Precepts

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

### 5. Allowance for NDR Collection

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

### 6. Impairment Allowance for Bad Debts

The contribution to the Council Tax Impairment Allowance was £1.4M (£1.4M in 2015/16). At 31 March 2017 the provision totalled £8.8M (SCC share £7.5M) against a liability of £11.9M (SCC share £10.2M) (2015/16 £8.7M (SCC share £7.5M) against a liability of £11.7M (SCC share £10.0M)).

The contribution to the NDR Impairment Allowance was £2.5M in (£1.0M in 2015/16) which includes a £1.7M specific provision not previously allowed for. At 31 March 2017 the provision totalled £3.3M (SCC share £1.6M) against a liability of £5.6M (SCC share £2.7M).

(2015/16 £1.9M (SCC share £0.9M) against a liability of £4.6M (SCC share £2.2M)).

### 7. NDR Appeals Provision

The contribution to/(from) the appeals provision was £1.7M ((£0.5M) in 2015/16). At 31 March 2017 the provision totalled £18.8M (SCC share £9.2M)

(2015/16 £17.1M (SCC share £8.4M)).

### 8. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is (£10.0M). A year end surplus on Council Tax of (£3.8M) and (£6.2M) on NDR.

(2015/16 Surplus carried forward (£9.9M) – Council Tax surplus (£2.1M) – NDR surplus of (£7.8M))

#### Council Tax

The year end balance on the Council Tax element of the Collection Fund of £3.8M surplus can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £3.2M and is shown as a revenue balance in the Balance Sheet. The remaining £0.6M attributable to the other preceptors is included within the adjustments required to derive the Council Tax Debtors and Creditors on an Agency Basis.

## THE COLLECTION FUND

### NDR

The year-end balance on the NDR element of the Collection Fund of £6.2M surplus can be apportioned to Central Government £3.1M (50%), Hampshire Fire and Rescue Authority £0.1M (1%) and Southampton City Council £3.0M (49%). These amounts are included within the adjustments required to derive NDR Debtors and Creditors on an Agency Basis.

The movement on the Collection Fund adjustment balance between 1 April 2016 and 31 March 2017 was an increase of £0.6M – £1.4M increase due to Council Tax and (£0.8M) reduction relating to NDR - giving a surplus balance of £6.3M being carried forward to 2017/18. The £0.6M has been debited to the Comprehensive Income and Expenditure Account, reversed out, in the Adjustments between accounting basis and funding basis under regulations note 10, to the Collection Fund Adjustment Account Unusable Reserves Note 22 d).

## GLOSSARY

### 1. Accruals

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

### 2. Budget

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

### 3. Capital Asset Charges

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

### 4. Capital Adjustment Account (CAA)

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

### 5. Capital Expenditure

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

### 6. Capital Receipts

The proceeds from the sale of capital assets.

### 7. Community Assets

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

### 8. Consistency

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

### 9. Contingency

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

### 10. Council Tax

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

### 11. Creditor

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

### 12. Debtor

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

### 13. Depreciation

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

## GLOSSARY

### **14. Effective Interest Rate (EIR)**

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

### **15. Fair Value**

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

### **16. Financial Assets**

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

### **17. Finance Lease**

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

### **18. Financial Instrument**

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

### **19. Financial Liability**

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

### **20. Financial Reporting Standard (FRS)**

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

### **21. General Fund**

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

### **22. Government Grants**

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

### **23. Heritage Assets**

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

### **24. Housing Revenue Account**

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

### **25. Impairment**

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

### **26. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

## GLOSSARY

### **27. International Financial Reporting Standards (IFRS's)**

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

### **28. Long Term Investments**

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

### **29. Long-Term Contracts**

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

### **30. Materiality**

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

### **31. Minimum Revenue Provision (MRP)**

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

### **32. Money Market Funds**

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

### **33. Non Domestic Rates Retention**

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

### **34. Net Book Value**

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

### **35. Net Expenditure**

Total expenditure for a service less directly related income.

### **36. Net Realisable Value**

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

### **37. Non-Operational Assets**

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

### **38. Operating Leases**

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

### **39. Operational Assets**

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

## GLOSSARY

### 40. Post Balance Sheet Events

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

### 41. Private Finance Initiative (PFI)

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

### 42. Property, Plant and Equipment

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

### 43. Public Works Loans Board (PWLB)

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

### 44. Revaluation Reserve

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

### 45. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

### 46. Revenue Expenditure / Income

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

### 47. Statement of Standard Accounting Practice (SSAP)

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

### 48. Stocks

Comprise the following categories:

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

### 49. Supported Borrowing

Borrowing that is supported by Government financial assistance.

### 50. Unsupported Borrowing

Borrowing that is not supported by Government financial assistance.

### 51. Useful Life

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

# ANNUAL GOVERNANCE STATEMENT

## SCOPE OF RESPONSIBILITY

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

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

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

[http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance\\_tcm63-364106.pdf](http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.pdf)

or can be obtained from the:

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

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

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. 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 2017 and up to the date of approval of the statement of accounts.

# 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 characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

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

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the Council's business and includes 'Decision Making' and 'Finance, Contract and Legal Matters' with more detailed procedures and codes of practice provided in separate rules and protocols. These include Access to Information Procedure Rules, Council Procedure Rules and Executive Procedure Rules. The Constitution may be accessed on the internet at:

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

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

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

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

As part of the commitment to safeguard public funds there is an 'Anti-Fraud and Anti-Corruption Policy Statement and Strategy' which outlines the process to be followed where there is suspicion of financial irregularity. The Strategy applies equally to all organisations with which the Council has joint working relations. The council also has in place an 'Anti-Money Laundering' policy and a 'Bribery Policy' which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. All such policies and strategies are subject to periodic review.

Complaints are managed via a formal Corporate Complaints policy and procedure in place which is published on the Council's website and set out how a complaint will be dealt with. In accordance with legislation there are a separate procedures in place in respect of Children's Services Complaints and Adult Social Care Complaints. Complaints about Members are dealt with under the Members' Code of Conduct.

## 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 'Southampton City Council Strategy 2016-2020' reflects feedback from residents, both from the Priorities Survey (2015) and the more recent City Survey 2016. The Strategy sets out how the Council will work in order to deliver services in a modern, efficient and sustainable way that meets the needs of our residents. The Strategy is subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors.

The Council's website includes a 'Have your say' section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

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

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the final budget report for 2017-18. Information was made available in an easy to understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The 2016 City Survey which asked residents about their views and opinions on a range of issues facing the city of Southampton. The survey, which was commissioned by Southampton Connect and the Police, Council and NHS, is intended to help understand the views of local residents. This survey is repeated every other year in order to understand trends and evaluate performance.

The Council has established a 'People's Panel' which now has a membership of over 1,100. This Panel comprises a group of residents who take part in various forms of activity including surveys, quick polls, interviews and workshops. Their views are used to inform future decisions and services. Resident's views are also tracked over time over time to see how changes in the city affect their opinions and experience of the city.

Southampton is the first council to develop a 'Citizen Science' project with around 100 members of the People's Panel. 'Citizen Science' is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants were supported by the Council's Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. This project involved one of the largest cohorts of participants ever in the UK for a project of this type and focussed on what prevents residents from recycling and what could help them recycle more.

There is a strong focus on youth participation in the city via 'The Youth Forum Southampton' which provides opportunities for young people to influence how services are delivered, highlight issues that that need to be reviewed, and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' explains how young people can get involved to help make Southampton a better place.

## ANNUAL GOVERNANCE STATEMENT

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

The Southampton City Council Strategy 2016-2020 ('Council Strategy') is a key strategic document that sets out what the Council wants to achieve, what it will do, how it will work and how it will contribute to the Southampton City Strategy (2015-2025). The Council Strategy sets out the priorities for the next four years, the outcomes that are expected to be achieved by 2020 and the measures used to monitor progress. It influences all other Council strategies and policies developed during this period, as well as the Council's spending decisions. The priority outcomes in the Council Strategy are:

- Southampton is a city with strong and sustainable economic growth
- Children and young people in Southampton get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is a modern, attractive city where people are proud to live and work
- A modern and sustainable council

Performance against the key indicators is actively monitored with performance reports published each quarter.

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: *'Southampton a city of opportunity where everyone thrives'*. This Strategy has been developed by Southampton Connect which is a strategic partnership in the city that seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

In 2016, Southampton City Council, Portsmouth City Council and Isle of Wight Council worked with wider Solent authorities and Solent Local Enterprise Partnership to negotiate a devolution deal with HM Government. Following a public consultation on the governance arrangements for the deal, a submission was made by the three authorities to the Secretary of State in the Autumn of 2016, requesting consideration of proposed arrangements to establish a Solent Mayoral Combined Authority. The outcome of this submission is awaited.

The Council's Medium Term Financial Strategy ('MTFS') is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action. The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities.

## ANNUAL GOVERNANCE STATEMENT

This forecast forms part of the base assumptions for developing the overall budget, together with unavoidable service pressures agreed by the Cabinet and the Council's Management Team that need to be taken into account in the overall budget deliberations. The Council's Medium Term Financial Strategy has been developed in order to secure a forward looking approach and long term sustainability in service provision. The strategy concentrates on the principles that will provide a strong direction for the medium term.

The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. A sustainable MTFS is therefore key to the effective delivery of the Council's overall aims of achieving better outcomes for residents.

Development of the MTFS takes into account a number of other strategies including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties and improve the experience and outcomes for service users. The associated Better Care Fund, which commenced in 2015, pools and aligns funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast. In recognition of the pressures in dealing with adult social care demand, local authorities are able to levy a "social care precept" of up to 2% in council tax which must be spent exclusively on social care, with the potential to bring almost £2bn more into the care system across the country. Governance across this work is via Cabinet member and senior officer representation on the Commissioning Partnership Board and strategic oversight from the Health and Wellbeing board.

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

The Council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered and rejected together with a details (including consultation carried out) section. The details section includes any pros and cons relevant to the proposal and deals with any supporting information that the decision maker may require in order to make a valid, legal decision.

There are also separate sections detailing any Financial (Resource), Legal, Risk and Policy implications that consider the how proposals will be paid for and from what budget if appropriate, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council's approved Policy Framework.

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

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

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key priorities and outcomes. These plans identify the key challenges associated with the delivery of the respective key priority and outcomes and how they can be addressed. These plans reflect 'How we are performing' (against a base year 2015-2016) and 'How we will perform in 2019-2020' with a suite of key performance measures explicitly aligned with the individual key priority outcomes. Performance against these measures or indicators is subject to regular and robust review by both the Council Management Team and Members.

Each service area within the Council is also required to produce a business plan on an annual basis that includes what and how services are to be delivered, the cost drivers, future challenges, opportunities and risks and how they will be addressed. The plans detail the budget envelope and projected costs for the service over a three year period.

Budget pressures arising from services are identified through regular monitoring of budgets and work plan with action plans to address any significant in year budget variances are agreed with the Council Management Team and subject to monthly progress / status reporting.

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

The Council has in place a 'Workforce Strategy and Action Plan' which was approved by Full Council in September 2016. The Workforce Strategy covers pay and reward, recruitment, retention, performance management, training and development of the workforce. It provides direction for all staff with the learning and development elements also covering all elected Members

The Workforce Strategy covers the period 2016 - 2021 and is aligned with other key strategies - Southampton City Council Strategy, the Customer Strategy and the Medium Term Financial Strategy. The 'Workforce Strategy' is intended to enable the Council to respond to short and medium term issues relating to organisational development and human resources in a rapidly changing world and taking into account national legislation and local demands. The Workforce Strategy and integral workstreams aim to close the gap between the Council's aspirations and its capacity to deliver by having clear priorities, policies and strong leadership throughout the organisation. The Workforce Strategy takes account of challenges in relation to overall Council budget and is used to guide resource allocation decisions, drive positive change and deliver a return on investment.

The vision is for the Council to be an employer of choice and be recognised as a 'Great Place to Work' where employees have pride in their work, the Council and the city. It is intended that this is delivered through:

- A skilled, agile, flexible and engaged workforce of high performing, professional teams guided in their work by our core behaviours and delivering the right services effectively and efficiently for a sustainable Council
- The Council recognising, developing and rewarding talent, proactively promoting learning and growth across all areas.

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

The Council has in place a 'Risk Management Policy 2017-2020' which sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. The Policy is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk. It is also relevant to Members in their capacity as 'decision makers'.

The Policy is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. Any significant changes reported to the Council's Governance Committee which 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.

Performance against the key indicators in the Council Strategy are published on the council website for each quarterly period. Performance is actively monitored and reported to both the Council's Management Team, Strategy Unit and the Overview and Scrutiny Management Committee. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a Supplier Management Team which provides a senior management interface between the Council and our partnership service providers.

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

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

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

The Council is committed to openness and transparency and publishing as much Council data as it can in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access the data published under the requirements of the Local Government Transparency Code (2015). This Code sets out the specific data required to be published, and the timescales by which the data must be published. All data required to be published by the Local Government Transparency Code is published.

The 'Council Data' web page includes a link to the Council's budget book which provides a comprehensive summary of the Council's 2016/17 Revenue Budget and details the assumptions made and risks considered in setting the budget. It also provides summary information of the Council's Medium Term Financial Position and a link to the Statement of Accounts which shows how public money has been used and that the Council has been honest and responsible. The Statement of Accounts are prepared in accordance with the Accounting Code of Practice.

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 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 are published on the Council's website.

The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance. In addition, 'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

### REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;

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- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the Council's internal control environment;
- For 2016-17 the Chief Internal Auditor's opinion was that " I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment. In my opinion, Southampton City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual 'Self-Assessment Statement' by Service Directors which cover the key processes and systems that comprise the council's governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an 'Assurance Framework' document which reflects the key components of the Council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

### SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

<b>1.</b>	<b>Governance Issue (CARRIED FORWARD FROM 2015-16)</b>
	The general level of staff awareness of the existence and content of the 'Whistleblowing Duty to Act' policy, 'Anti-Fraud and Corruption Strategy' and 'Anti Money Laundering Policy' and associated responsibilities is inconsistent.
	<b>Planned Action:</b> A new Induction programme is being delivered to all new entrants to SCC and an Induction plus programme for existing staff- this includes bespoke modules for Finance and financial regulations and Legal and Democratic Services – working with subject matter experts

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	<p>for content and delivery. Specific E-learning to support the policies will be added to the L and D portal during 2017.</p> <p><b>Responsible Officer:</b> Service Director: Human Resources &amp; Organisational Development</p> <p><b>Target for completion:</b> Induction in place. E-learning modules on portal by end 2017.</p>
<b>2.</b>	<b>Governance Issue</b>
	<p>The Council's Code of Corporate Governance needs to be reviewed and updated in order that it is aligned with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.</p> <p><b>Completed Action:</b> The Code of Corporate Governance has been reviewed and updated to reflect current best practice. It was presented to and approved by the Council's Governance Committee on 24<sup>th</sup> April 2017</p> <p><b>Responsible Officer:</b> Service Director - Legal and Governance</p>
<b>3.</b>	<b>Governance Issue</b>
	<p>Information Governance - Not all staff have completed the Data Protection and Freedom of Information training which is mandatory for all Council employees at induction and annually thereafter. The training made is available via e-learning together with alternative options available for those staff unable to access a computer as part of their day to day work.</p> <p><b>Planned Action:</b> This is an ongoing concern. It was raised as part of the annual 'Information Governance' report at Council Management Team and actions agreed including, as a last resort, suspension of individual IT user accounts and disciplinary action.</p> <p>Equally, confidence in the core supporting data produced by HR Pay is lacking given accuracy issues. This core element must be wholly accurate before starting any disciplinary action. Part of the issue is the interface between Resourcelink and the other databases involved. This aspect is being investigated urgently by the Service Director: Human Resources &amp; Organisational Development.</p> <p><b>Responsible Officer:</b> Service Director - Legal and Governance</p> <p><b>Target for completion:</b> September 2017</p>
<b>4.</b>	<b>Governance Issue</b>
	<p>Performance Management - Not all staff have had an annual performance appraisal. The performance appraisal process is intended to allow for priorities and objectives for the forthcoming period to be determined and agreed which, in turn, should reflect the Service / Council's key outcomes and priorities.</p> <p><b>Planned Action:</b> A new Performance Management Framework has been approved and is in the process of being implemented. This new Framework is intended to ensure all staff are working to deliver the Council Strategy and other key strategies which are then translated into</p>

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	<p>outcome plans, service based business plans and individual and/or team objectives. This will be delivered throughout 2017/18 taking into account the implementation of Phase 3 restructures.</p> <p>For all staff, this will be through:</p> <ul style="list-style-type: none"> <li>• A Performance Contract for each role (linked to the job description)</li> <li>• Annual and quarterly targets, considered at Annual Performance Review meetings and Quarterly Performance Review meetings</li> <li>• Personal Development Plans</li> <li>• Team meetings</li> </ul> <p>Individual supervision / one to one meetings</p>
	<p><b>Responsible Officer:</b> Service Director – Human Resources and Organisational Development</p> <p><b>Target for completion:</b> March 2018</p>
<b>5.</b>	<b>Governance Issue</b>
	<p>There is need for more a formal, robust and consistent approach to succession planning, for key posts and/or a spread of skills to avoid over reliance on any particular individual.</p>
	<p><b>Planned Action:</b> Delivery of a workforce strategy and action plan is addressing the issues that are highlighted as part of the Phase 3 restructures.</p>
	<p><b>Responsible Officer:</b> Service Director – Human Resources and Organisational Development</p> <p><b>Target for completion:</b> March 2018</p>

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

**Richard Crouch**  
 (Chief Operations Officer)  
 On behalf of the Chief Executive  
 On behalf of Southampton City Council

**Councillor Warwick Payne**  
 (Deputy Leader of the Council)  
 On behalf of the Leader of the Council

# Independent auditor's report to the members of Southampton City Council

## Opinion on the Authority's financial statements

We have audited the financial statements of Southampton City Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Balance Sheet; Cash Flow Statement; related notes 1 to 40 and the Expenditure and Funding Analysis; Housing Revenue Account Comprehensive Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance and related notes 1 to 11; and the Collection Fund and the related notes 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Southampton City Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 18, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements; in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Southampton City Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Opinion on other matters**

In our opinion, the information given in the Financial Statements 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Conclusion on Southampton City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Authority's responsibilities***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### ***Auditor's responsibilities***

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### ***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether the Southampton City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Southampton City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are satisfied that, in all significant respects, Southampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Helen Thompson  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
31 July 2017

The maintenance and integrity of the Southampton City Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.