

# Southampton City Council **STATEMENT OF ACCOUNTS**

2019/2020





# STATEMENT OF ACCOUNTS

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### Introduction to the Statement of Accounts by Councillor Barnes-Andrews, Cabinet Member for Finance and Income Generation

Welcome to Southampton City Council's Statement of Accounts for 2019/20.

Southampton City Council has continued to work tirelessly throughout 2019/20 in the delivery of local services, to invest and attract investment to the city and enhance the value for money for the services that we provide to our residents.

During 2019/20 we continued our collaborative work to enhance opportunity in the city in part through our partnership working. The Council's new Corporate Plan will be delivered through achieving our detailed business plans, delivering on key initiatives and working positively with partners and supported by our financial plans. For example, we are working with partners to deliver the ambitions set out in the five year Health and Wellbeing Strategy, this area looks at wellbeing across the city, with a focus on adults and children's social care, education and public health.

Collaboration between the Council and partners is also demonstrated through the Health and Wellbeing Board, Safe Partnership (Community Safety Partnership) and the Joint Commissioning Board which brings the Council and Clinical Commissioning Group together to deliver joint health improvements through pooled funds. We are seeing the benefits of partnership working at the moment, in tackling the effects of the COVID crisis via our work with the NHS, Police and other partners to ensure minimal disruption to public services and protect the vulnerable in our communities.

For 2019/20, the Council was again part of a successful business rate pilot bid to Government alongside Portsmouth and the Isle of Wight authorities (who collectively formed the Solent Pilot area). The benefit of being part of a pilot is that a greater share of the local growth in business rates is retained by the area, rather than being passed back to Government. The total benefit arising from the scheme in 2019/20 was £13.33M, of which the share to Southampton is £5.38M, which provides a welcome additional sum to help meet budget pressures. The total benefit for the two years in terms of extra funding for Southampton from this scheme was £8.92M. I would like to thank both Portsmouth and the Isle of Wight authorities for their co-operation in this scheme.

July 2019 saw the successful re-integration into the Council of a number of functions previously outsourced and operated by Capita. This was an ambitious task involving the transfer of more than 240 staff associated with the provision of Revenues and Benefits; IT; HR services including Payroll; Health and Safety and Learning and Development; Procurement and Customer Services and re-integrating them as part of the Council's in-house services. The services have been performing satisfactorily since transfer and the expected benefits have started to be realised.

2019/20 was the third year of operation of the Business Improvement District (BID), with over £1.08M (2018/19 £1.15M) generated to support activities to improve the marketing and experience of the city centre.

Southampton City Council completed in 2019/20 its major £5.8M project to improve journey times for all road users on the A3024 Bursledon Road. The new signals have been coordinated to facilitate more reliable journey times for people along this major road. They also include new technology which provides additional priority for buses. Part of the project involved widening the footways along the north side of Bursledon Road to create a segregated footway/cycleway, with the new 2.6km cycleway along Bursledon Road connecting to a network of 'Quietways' through Bitterne to Quayside Road forming another milestone in the delivery of the Council's cycling strategy.

Southampton has been successful as part of the City Region bid to become one of the Transforming Cities Fund (TCF) City Regions, with a national pot of funding of around £1.28BN being shared out over the next five years to allow us to progress our transport plans to make Southampton a better place. Southampton City Region's share was recently announced as around £57M. This will enable Southampton City Council and Hampshire County Council to deliver joint plans for sustainable and active travel in the City Region in a targeted way. This is a significant level of capital transport funding that will have a transformative impact on people's journeys by bus, walking and cycling. It will also support Southampton City Council's Green City Plan.

A major focus continues to be on ensuring we meet the needs of our children and young people. An Ofsted visit during the year reached the conclusion that the overall effectiveness of children's social

## PREFACE

care required improvement to be good. We are focusing efforts on realising the improvements sought. During the year we had already enhanced the budget through budget re-basing work, which added £4.7M to the budget available for children's services. As part of the 2020/21 budget we have provided for a social care reserve (to be shared with Adults) which will be held to invest in the service when required and justified. This sum is also available for the following two years, making potentially up to £21M of investment available.

During the financial year Townhill Park phase 1 was completed and is now open (at a cost of £10.3M). Work continues on Potters Court with a budget of £23.6M for the scheme. Both schemes will deliver 56 homes and 84 with care & 15 general needs homes respectively. The Housing with Care development provides purpose built homes for adults of all ages who would benefit from being able to live independently in a supportive environment with communal and care facilities on hand.

The Council also considered and approved a new development of new purpose built homes to meet local demand for housing at the Oaklands site, at a cost of £18.3M. The development will include 103 homes in 2 and 3 storey buildings, with associated access, parking and landscaping. It is proposed that there will be a mix of affordable and shared ownership. As a part of our commitment to the Green City agenda, the investment will include energy efficiency measures, such as solar panels, a cycle path will be available for the development and tree removal will be minimised, new tree planting will be carried out on a 2:1 basis leading to an increase of approximately 50 trees.

The Council's approved capital programme totals almost £1BN over the six year period 2019/20 to 2024/25, covering the General Fund at £729M and the Housing Revenue account at £252M. This compares with the five year programme of £405.70M agreed in February 2019. The impact of the recent COVID-19 on the delivery of this programme will need to be re-assessed, but the core aims with our capital investment is to attract jobs and investment to the city and ensure all council services have assets which are fit for purpose when delivering services to local residents.

The Council's Medium Term Financial Strategy (MTFS) was approved in February 2020, with the overriding aim to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities and sustainable services. A combination of austerity on public finances and an unavoidable rise in the demand for local council services has meant the authority faces major budget pressures within a very tight resource base. The budget strategy involves using an element of the available reserves to offset anticipated budget shortfalls whilst allowing time to develop new approaches focused around generating additional income as a way to balance the budget.

The authority's services continue to impact on many aspects of people's lives and it is essential the approach promotes spending our total resources of over £600M on activities with the greatest impact, with better outcomes for all residents. This has given stability to services and enabled them to focus on delivering the priority outcomes. It is intended to continue this practice going forward. The authority also continues to balance the need to protect services, especially to our vulnerable residents, against the financial pressures many of our council tax payers face. Hence, for 2020/21, the authority only chose to increase council tax by 2% in relation to the Adults Social Care levy, the proceeds of which are invested wholly and directly into these services. There was no increase applied to the Southampton City Council share of the general council tax level.

Looking forward, it is impossible not to consider how the current COVID-19 crisis will impact on our services and hence our finances. There is considerable uncertainty on how long the situation will last, and hence what will be the ultimate impact, on our communities and on the authority's finances. Nevertheless, an impact will undoubtedly be felt, through additional costs, loss of income in key areas (such as car parking). There will also be a lack of capacity to implement, to the expected timescale and in full, some of our existing plans such as around income generation and savings. The firm financial foundations of the authority, with £25.8M of reserves so far not allocated (but work is needed to review future funding and costs faced via the Medium Term Financial Strategy review) and a General Fund balance of £10.1M, as well as prudent budget assumptions places the authority in a strong position to cope with all future risks, including COVID.

The national issue of rising demand on Adult Social Care and Safeguarding of Children have impacted on the level of spend for these services in 2019/20 and is expected to continue over the longer term to be a pressure on the Council's budget. The impact from COVID again needs to be re-assessed. Around £2.9M was re-allocated to Adults Social Care in year as part of the rebasing work, which was

## PREFACE

on top of the significant extra investment already made within the 2019/20 budget as agreed at the February 2019 council meeting.

On our day to day spending on service delivery the revenue budget gap was estimated in February at £10.2M by 2022/23. Further work was already underway to close this gap, but the COVID crisis will now also need to be factored in, for both its short and longer term financial impact on the Council. I will be working with the finance team to closely monitor this impact and take stock of its impact on our finances.

The production of the Statement of Accounts this financial year has inevitably been impacted by the COVID crisis and the additional stress and strain this has placed on all services across the Council. Considerable effort and commitment continues to be shown across the finance team to compile these accounts and I would like to take this opportunity to thank all of our finance and audit staff for all their dedication during these challenging times. I also want to take the opportunity to thank all our staff for their hard work during the year, and in particular the additional efforts made at the tail end of 2019/20 and into the current year to support our communities across Southampton during the COVID crisis, often in difficult circumstances.

Careful stewardship of our finances and planning ahead for the longer term to promote stable finances enables us to make the maximum use of Council resources and deliver the good quality of services that residents have come to expect.

## NARRATIVE STATEMENT

### Message from the Executive Director of Finance & Commercialisation, John Harrison

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2019 to 31 March 2020. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year.

The Finance Service continues to have an outward focus on supporting services, with the Finance Business Partner Service aimed at providing service managers with ready access to specialist financial support. 2019/20 represents my first full financial year as the S151 officer at Southampton. My priority has been to ensure that the Finance Service continues to provide an effective level of service via supporting front line services, ensuring all decision making is based on sound financial information, that finances are fully aligned with Council priorities and ensuring sound financial good practice is at the heart of all we do.

The budget for 2019/20, agreed by council in February 2019, supported the objectives of the Council Strategy and was set against the challenging background of continuing austerity in public finances. The budget aimed to support the delivery of members' vision and deliver the priorities of their plan. The Council has continued to deliver good value services and has done this whilst delivering overall spending less than allowed for within the agreed total budget, with a sum of £5.17M being underspent for the 2019/20 financial year which has been taken to reserves.

A significant boost to our income has been derived from the Council's participation in the Business Rates Retention Pilot arrangement, working jointly with Portsmouth City Council and Isle of Wight Council through 2018/19 and 2019/20. The Council was one of only a handful of pilot schemes nationally, successfully applying to Government in 2018/19 and then again in 2019/20. All pilot schemes have come to an end as of 31 March 2020, however, it has brought a demonstrable financial benefit to the authority with £8.92M from additional business rate growth being kept within the locality over the last two financial years.

The authority successfully implemented a new accounting/HR and business support package called Business World during 2019/20. The efforts behind that achievement should not be underestimated and I would like to thank all staff involved in that project for their hard work and endeavors. There remains more work to do to fully utilise and develop this IT package and to realise its full potential for delivering improved financial management and other system benefits for the Authority, but this represents a major landmark in enhancing our core financial and management systems.

As highlighted by the Cabinet Member for Finance and Income Generation, the Council welcomed back in-house a significant number of services previously operated by Capita since 2007. This includes both 'back office' functions such as HR and IT as well as front line services such as the Revenues and Benefits service. The integration of these services back to Council has been successful and will strengthen our capacity and resilience.

2019/20 saw the first year of the Chartered Institute of Public Finance and Accountancy (CIPFA) financial resilience index for local authorities. The headlines from this index, when comparing Southampton with councils of a similar status (unitary councils), was the authority represented a low or very low risk on level of reserves and change in reserves and the reserves sustainability measures. On some of the measures, which look at our aspects of expenditure, the authority had a higher risk level e.g. on the relative proportion spent in Adult Social Care – which is led by demand and statutory requirements to meet client needs. However, a key part of budget planning has been to ensure a robust budget to cater for rising demand pressure with a risk reserve specifically for social care provision set aside of around £7M. The Council was not a risk 'outlier' on any measure used in this index.

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.

## **NARRATIVE STATEMENT**

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 121.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2019/20 there were no material transactions that require this. Note 36 on page 104 provides further information.

The sections contained within the Narrative Statement are:

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

Looking ahead, the Authority faces significant financial uncertainty with respect to its funding. Government has not pre-announced any future financial settlement for 2021/22 and changes expected due to the overhaul of the business rate retention scheme of funding authorities have now been delayed due to the ongoing COVID crisis. The long-awaited green paper on funding for Adult Social Care is still to be published.

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

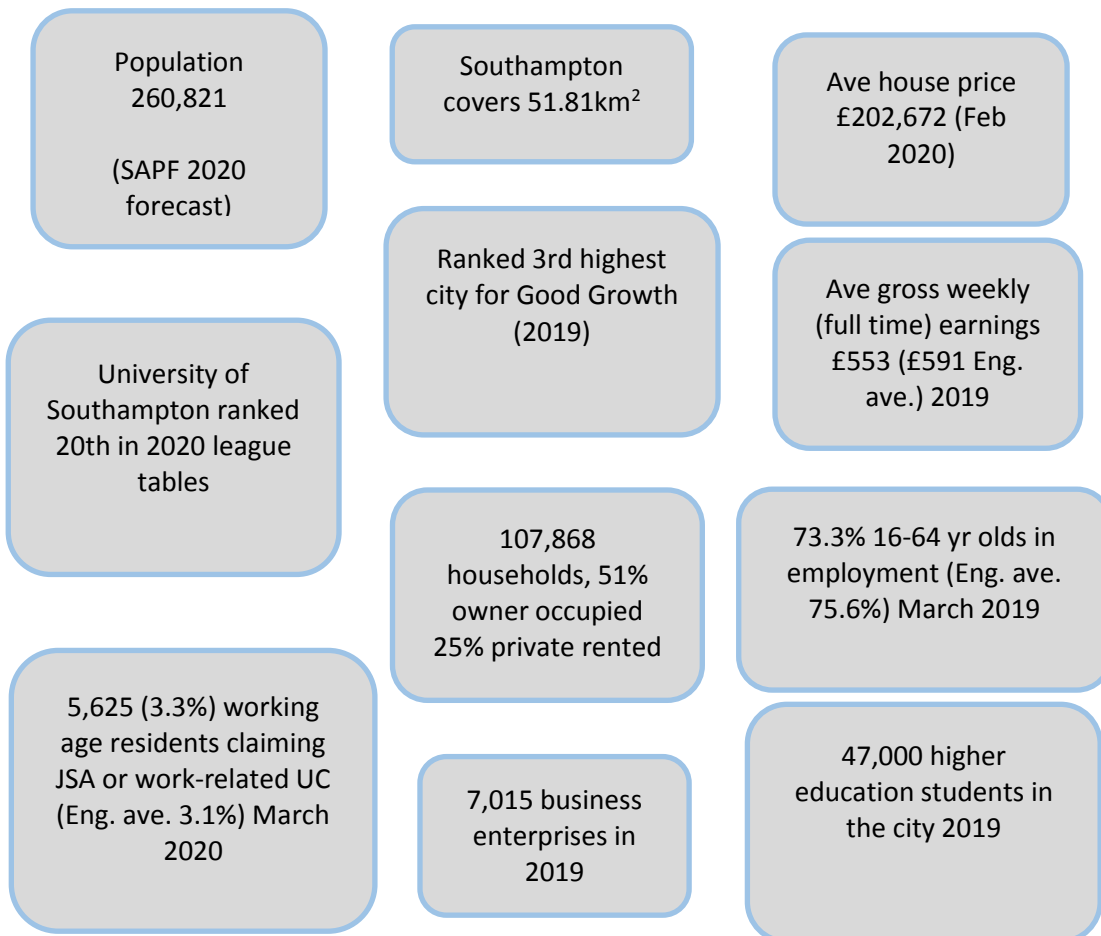
### **1. KEY FACTS ABOUT SOUTHAMPTON**

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

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

# NARRATIVE STATEMENT

## Key Statistics



- We maintain over 416 miles of highways
- We maintain 50 parks and over 100 other green spaces and 45 areas “managed for wildlife”
- We also maintain 97 play areas, 24 Multi use games areas, 6 Skateparks and 7 Tennis courts and a mini-golf course
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways
- We provide 11 libraries, 6 Council led and 5 in partnership with community organisations
- We provide 15, 691 council houses
- We recycle, compost and reuse an estimated 26,300 tonnes of waste every year
- We determined 984 planning applications during 2019/20
- We provide long-term support for over 2,600 adults over 18
- We work with and support 75 schools in the city
- Nearly 7,000 children under 5 use our city’s children’s centres (over 14,000 visits per year) and we look after approximately 490 children who are in our care
- Over 1,655 Commercial Waste Customers and over 14,000 Garden Waste Customers
- Empty around 130,000 bins from households every week
- Service and maintain nearly 480 vehicles and over 500 pieces of plant and equipment
- We currently have 2,408 people which City Telecare support with telecare devices



## NARRATIVE STATEMENT

- We have about 3,500 supported housing properties which have pull cords available
- The 60+ support service has provided Housing Related Support to over 700 clients during 2019/20 (not all long term – the aim is short term support)
- We have 153 Extra Care properties in the city

### **Southampton City Strategy 2020-25**

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

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

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



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



## 2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

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

## NARRATIVE STATEMENT

### Political Structure

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The political structure in 2019/20 was as follows:

Labour 30

Conservative 18

### Council Executive Management Board

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2019/20 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2019/20.

Chief Executive – **Sandy Hopkins**

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

Executive Director – Wellbeing (Children and Learning) – **Hillary Brooks**

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

Executive Director – Place - **Kate Martin**

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

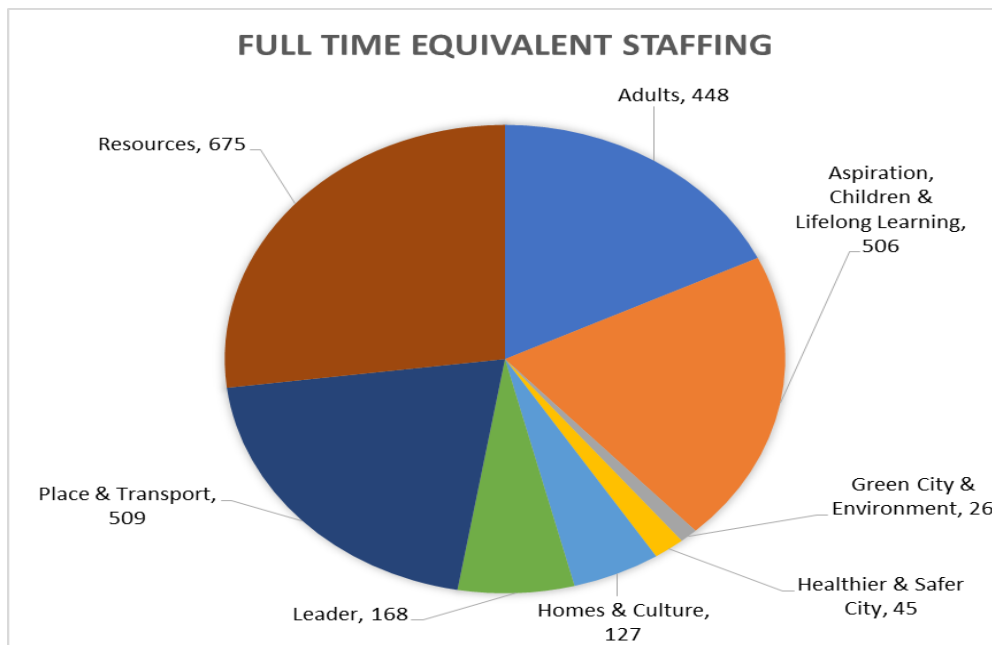
Executive Director - Finance & Commercialisation – **John Harrison**

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

### Staffing

The Council employs circa 2,500 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

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



# NARRATIVE STATEMENT

## The Council's Performance

Indicator	16/17	17/18	18/19	19/20	DoT	Change	Preferred Direction of Travel	Stat Neighbour (ave)	Variance	Eng (ave)	Variance	Comment
Disability Living Allowance	4.0%	3.1%	2.7%	2.5%	↓	-0.20%	↓	2.40%	-0.10%	2.30%	-0.20%	August 2019. DLA Claimants as a percentage of total population per mid year estimate 2018
Children leaving care for permanence (Special Guardianship Order or Adoption)	50.70%	46.90%	43.60%	46.5%	↑	2.90%	↑	not known	-	-	-	-
First time entrants into Youth Justice System (per 100,000 pop of 10-17 year olds)	387	386	397	358	↓	-39	↓	301.57	-56.43	224.7	-133.3	National benchmark and Statistical Neighbour benchmark comparison
Pupils in Early Years Foundation Phase achieving good level of development (%)	69.80%	70.20%	71.00%	71.10%	↑	0.10%	↑	69.98%	-1.12%	71.80%	0.70%	National benchmark and Statistical Neighbour benchmark comparison
%age of 16-17 year olds NEET or whose activity is not known	7.60%	5.80%	7.00%	6.20%	↓	0.80%	↓	5.50%	-0.70%	5.50%	-0.70%	National benchmark and Statistical Neighbour benchmark comparison
Claimant Count	1.4%	2.8%	2.9%	5.5%	↑	2.60%	↓	3.70%	-1.80%	2.60%	-2.90%	Updated for April 2020 figures, Backdated other figures for April. Includes those claiming JSA and Universal Credit.
Employment and Support Allowance	4.0%	3.5%	2.9%	2.7%	↓	-0.20%	↓	3.50%	0.80%	3.50%	0.80%	November 2018 and 2019 only available on DWP data website. Number of claimants of ESA by mid year estimate 2018 all people population (source Stat-Xplore DWP)
Carers Allowance	1.16%	1.19%	1.25%	1.31%	↑	0.06%	↓	1.48%	0.17%	1.34%	0.03%	August 2019. Claimants of carers allowance percentage of total population by mid year estimate.

### 3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The financial year began with the setting of the budget on 20 February 2019, when a balanced budget was set that included around £6.8M of extra savings. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

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

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

## NARRATIVE STATEMENT

<b>General Fund Revenue Account: Outturn Position 2019/20</b>	<b>Budget 2019/20</b>	<b>Portfolio Outturn 2019/20</b>	<b>Outturn Variance 2019/20</b>	
	<b>£M</b>	<b>£M</b>	<b>£M</b>	
<b>Portfolios</b>				
Adults	67.40	69.08	1.68	A
Aspiration, Children & Lifelong Learning	49.23	55.28	6.05	A
Green City & Environment	1.11	0.95	(0.16)	F
Healthier & Safer City	(5.40)	(5.63)	(0.23)	F
Homes & Culture	7.65	8.09	0.44	A
Leader	3.21	1.85	(1.36)	F
Place & Transport	22.42	23.27	0.85	A
Resources	35.19	33.18	(2.01)	F
<b>Sub total for Portfolios</b>	<b>180.82</b>	<b>186.07</b>	<b>5.25</b>	<b>A</b>
Levies & Contributions	0.63	0.69	0.06	A
Capital Asset Management	5.15	4.50	(0.64)	F
Green City & Environment Trading	(0.32)	(0.42)	(0.11)	F
Net Housing Benefit Payments	0.00	(0.64)	(0.64)	F
Other Expenditure & Income	3.39	(4.57)	(7.95)	F
<b>Net Council Expenditure</b>	<b>189.67</b>	<b>185.64</b>	<b>(4.03)</b>	<b>F</b>
<b>Financed By:</b>				
Council Tax	(101.75)	(101.80)	(0.05)	F
Business Rates	(83.29)	(82.47)	0.81	A
Non-Specific Government Grants & Other Funding	(4.63)	(6.54)	(1.91)	F
<b>Total Financing</b>	<b>(189.67)</b>	<b>(190.81)</b>	<b>(1.14)</b>	<b>F</b>
<b>Transfer to Reserves - Year End Surplus</b>		<b>5.17</b>	<b>5.17</b>	
<b>(Surplus)/Deficit</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	

Numbers are rounded

Since the Council set its budget in February 2019 the overall financial outlook has continued to be challenging. In-year action was taken in response to the ongoing financial pressures facing the Council as reported during the course of the year via the quarterly financial monitoring. Furthermore, budget monitoring identified, for a variety of reasons, that budgets have not been set at an appropriate level for the pressure faced, for example social care demand.

A rebasing of budget exercise was therefore undertaken during 2019/20, the overall impact of which was cost neutral at authority level. The rebasing allowed for factors including:

- Increased demand for Children's social care
- Increased demand for Adults social care
- Increased demand in other areas such as home to school transport
- Unachieved savings targets

Similar cost pressures are expected to occur as part of the 2020/21 budget, which will continue to be monitored on a regular basis and action taken to mitigate costs with the aim of remaining in budget.

The overall outturn for the council was a contribution to general reserves of £5.17M.

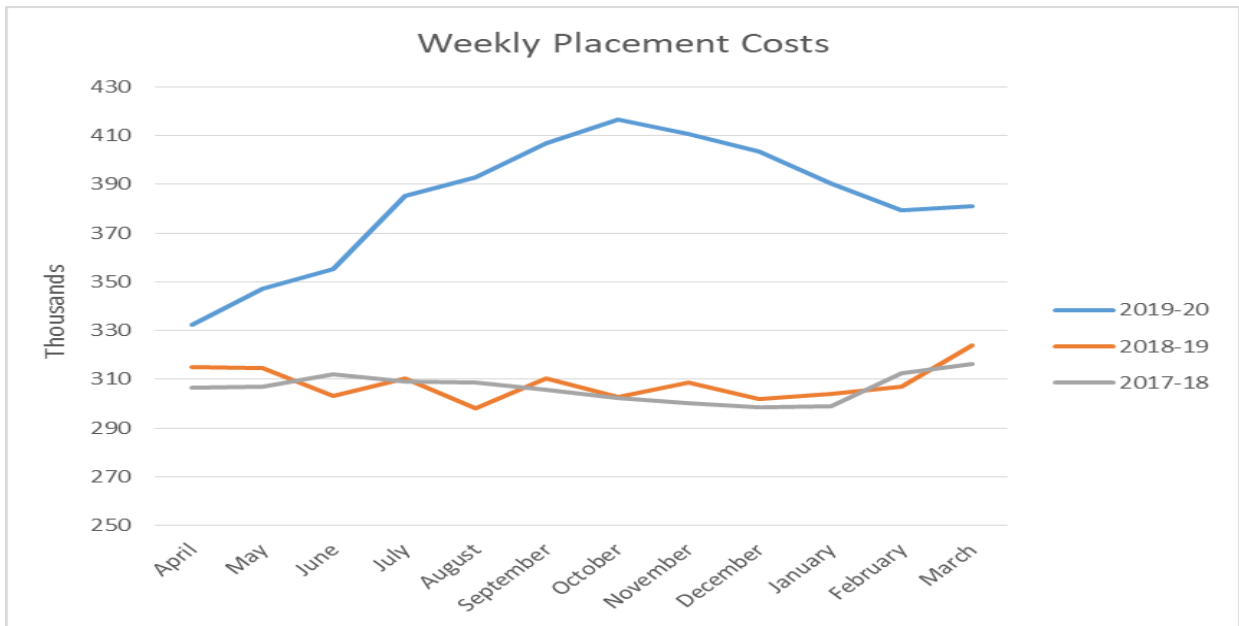
## NARRATIVE STATEMENT

On-going significant pressure has been experienced in relation to both Adult Social Care and Children's Social Care services during 2019/20 due in part to increasing demand and complexity of required services and from the impact of non-achievement of all required planned savings.

£6.05M of the Portfolios outturn variance relates to Aspiration, Children & Lifelong Learning. The Council has experienced a challenging year with Children's Social Care and this is part of a national pattern experience by many councils. Locally the contributing factors are:

- increased demand throughout the service and the need for additional agency staff to deal with high caseloads and managing areas of service highlighted in the OFSTED inspection
- high levels of high cost residential and independent fostering agency cases.

The chart below shows that weekly placement costs were running at a consistently higher level in 2019/20 than compared with the previous two years.



As part of setting the budget for 2020/21 the circumstances and risks around service spending pressures were recognised, with further funding provided and a reserve set up to cater for all forms of social care demand, which will be available but subject to evidenced business cases around the financial pressures faced.

### **Expenditure and Funding Analysis**

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 27 and further in Note 8.

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

## NARRATIVE STATEMENT

	Budget 2019/20 £M	Portfolio Outturn 2019/20 £M	Outturn Variance 2019/20 £M	
Salaries & Wages	112.79	124.00	11.21	A
Premises Costs	12.95	10.49	(2.46)	F
Transportation Costs	5.87	5.06	(0.81)	F
Supplies & Services	100.97	92.76	(8.22)	F
Internal Charges	5.89	7.53	1.64	A
Other Direct Costs	220.79	233.51	12.72	A
<b>Total Expenditure</b>	<b>459.27</b>	<b>473.35</b>	<b>14.09</b>	<b>A</b>
Internal Income	(24.42)	(25.00)	(0.58)	F
Fees, Charges & Rents	(55.34)	(59.95)	(4.61)	F
Grants / Contributions	(198.70)	(202.33)	(3.64)	F
<b>Total Net Expenditure</b>	<b>180.82</b>	<b>186.07</b>	<b>5.25</b>	<b>A</b>

Numbers are rounded

*This analysis excludes HRA, Housing Benefit and Green City & Environment Trading areas when compared to the EFA.*

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 109 to 113.

## NARRATIVE STATEMENT

### HRA Outturn Position 2019/20

The table below shows the HRA outturn position.

<b>Housing Revenue Account: Outturn Position 2019/20</b>	<b>Budget 2019/20</b>	<b>Outturn 2019/20</b>	<b>Outturn Variance 2019/20</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b><u>EXPENDITURE</u></b>			
Responsive Repairs	11.33	12.64	1.32 A
Housing Investment	5.19	4.52	(0.67) F
<b>Total Repairs</b>	<b>16.51</b>	<b>17.16</b>	<b>0.65 A</b>
Rents Payable	0.10	0.14	0.04 A
Debt Management	0.09	0.07	(0.01) F
Supervision & Management	23.08	22.89	(0.19) F
Interest Repayments	6.56	5.19	(1.37) F
Principal Repayments	0.00	0.00	0.00
Depreciation	19.97	19.60	(0.37) F
Capital Financing	7.94	8.96	1.02 A
<b>TOTAL EXPENDITURE</b>	<b>74.24</b>	<b>74.01</b>	<b>(0.23) F</b>
<b><u>INCOME</u></b>			
Dwelling Rents	70.16	69.50	0.66 A
Other Rents	1.16	1.25	(0.09) F
<b>Total Rental Income</b>	<b>71.32</b>	<b>70.75</b>	<b>0.57 A</b>
Service Charge Income	2.28	2.23	0.05 A
Leaseholder Service Charges	0.64	1.01	(0.37) F
Interest Received	0.01	0.02	(0.01) F
<b>TOTAL INCOME</b>	<b>74.24</b>	<b>74.01</b>	<b>0.23 A</b>
<b>SURPLUS/(DEFICIT) FOR YEAR</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b><u>BALANCES</u></b>			
Working Balance B/Fwd	2.00	2.00	0.00
Surplus/(deficit) for year	0.00	(0.00)	(0.00)
<b>WORKING BALANCE C/FWD</b>	<b>2.00</b>	<b>2.00</b>	<b>(0.00)</b>

Numbers are rounded

## NARRATIVE STATEMENT

### CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £135.45M in total for the General Fund and HRA. Final capital spend for the year was £97.09M, this was £38.36M less than the budget, including slippage/re-phasing of £37.62M. This will be reflected in the post outturn update of the overall programme. £20M of the slippage relates to the Property Investment Fund, as property investment will not now be considered until 2020/21 due to the current economic climate.

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

Service	2019/20 Budget £M	2019/20 Expenditure £M	Variance £M
Adults	0.54	0.11	0.42 F
Aspiration, Children and Lifelong Learning	21.15	19.17	1.98 F
Green City	0.00	0.00	0.00 A
Healthier and Safer City	3.42	2.06	1.36 F
Homes and Culture	0.26	0.34	0.08 A
Leader's	2.23	1.89	0.34 F
Place and Transport	33.66	29.08	4.57 F
Resources	26.84	3.38	23.45 F
<b>Total General Fund Programme</b>	<b>88.09</b>	<b>56.04</b>	<b>32.05 F</b>
Housing Revenue Account	47.35	41.05	6.31 F
<b>Total Capital Programme</b>	<b>135.45</b>	<b>97.09</b>	<b>38.36 F</b>

Numbers are rounded

The final spend for the year was £38.36M lower than the budget. Of this, £37.62M was due to slippage/re-phasing on schemes, which will be spent in 2020/21 predominantly on the following schemes:

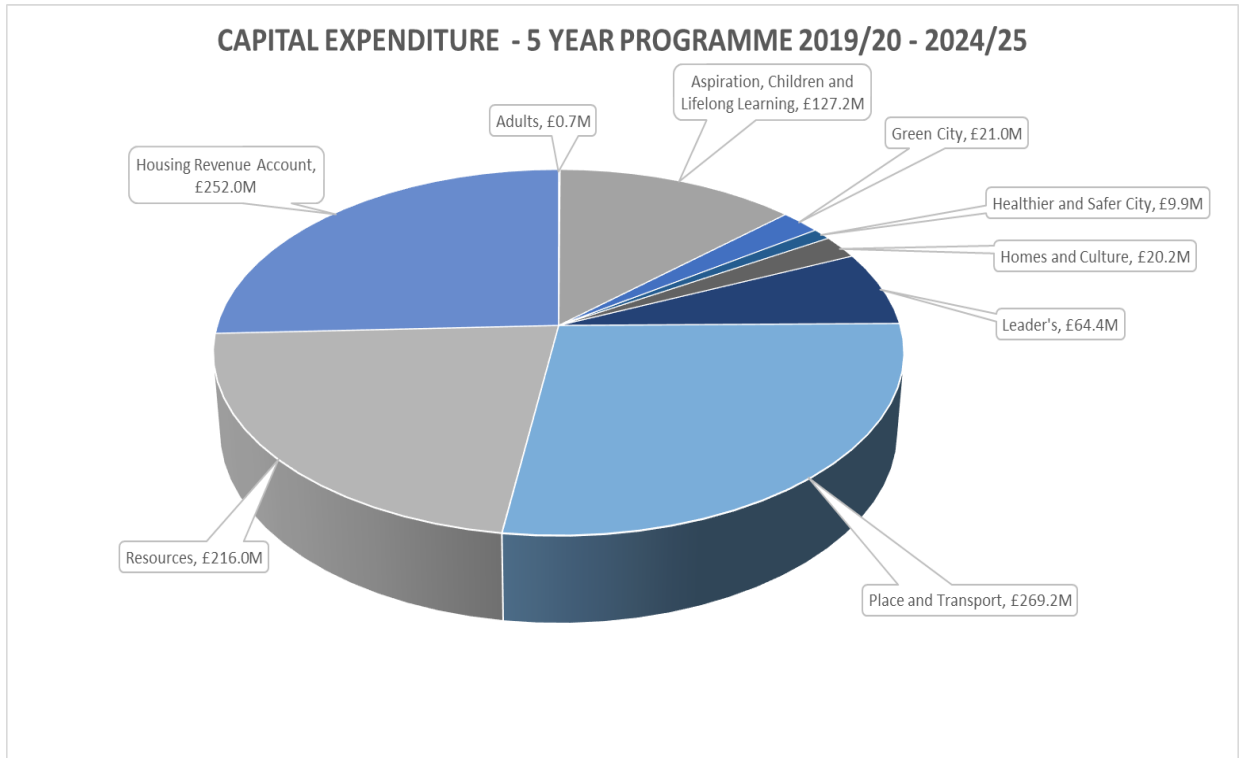
Property Investment Fund	£20.00M
Highways	£2.02M
Resources Capital	£1.74M
Transformation Capital Programme	£1.71M
Secondary Expansion	£1.34M
School Capital Maintenance	£1.01M
HRA - Miscellaneous	£2.72M
HRA - Making Homes Safe	£1.36M
HRA - Making Homes Energy Efficient	£1.03M

### 5 Year Capital Programme

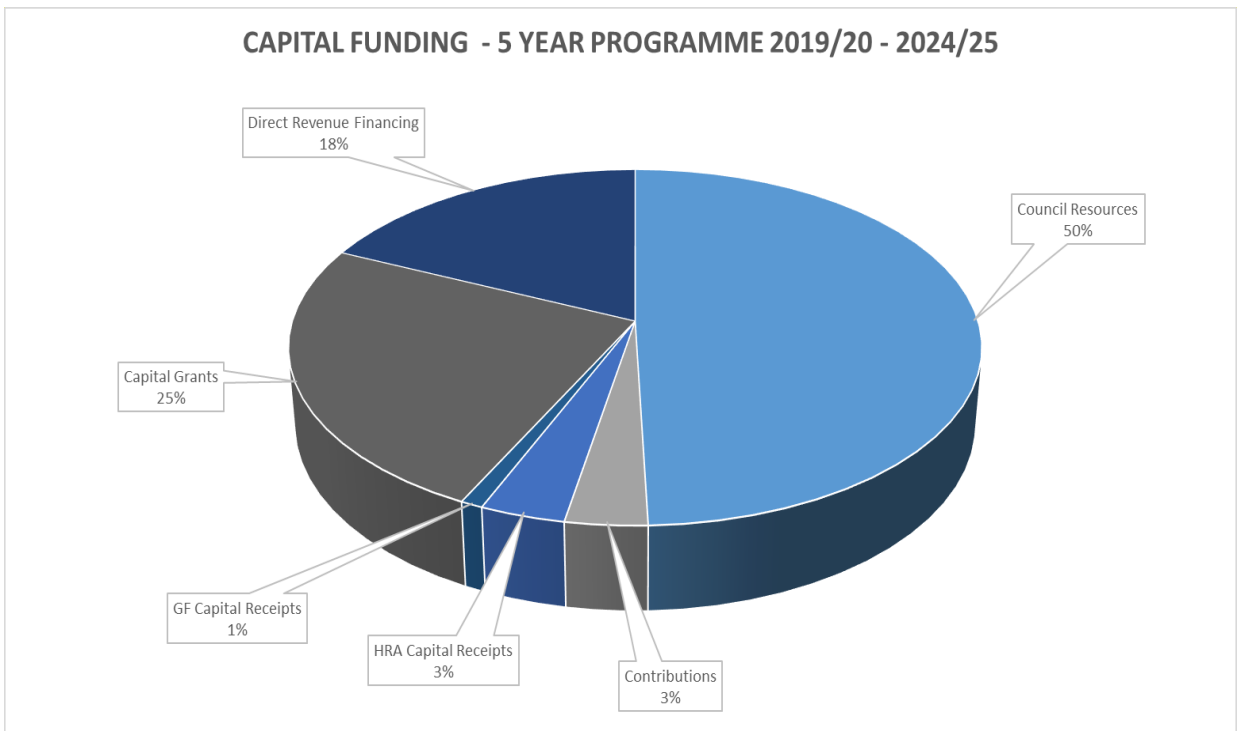
The current approved 5 year capital programme which totals £980.63M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.



# NARRATIVE STATEMENT



Funded by:



## NARRATIVE STATEMENT

### TREASURY MANAGEMENT

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

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

The CCLA property investment fund is generating returns of 4.23% against our nominal investment of £27M. There was a fall in the estimated property value when compared to the nominal investment value of £0.531M (gain of £0.451M in 2018/19).

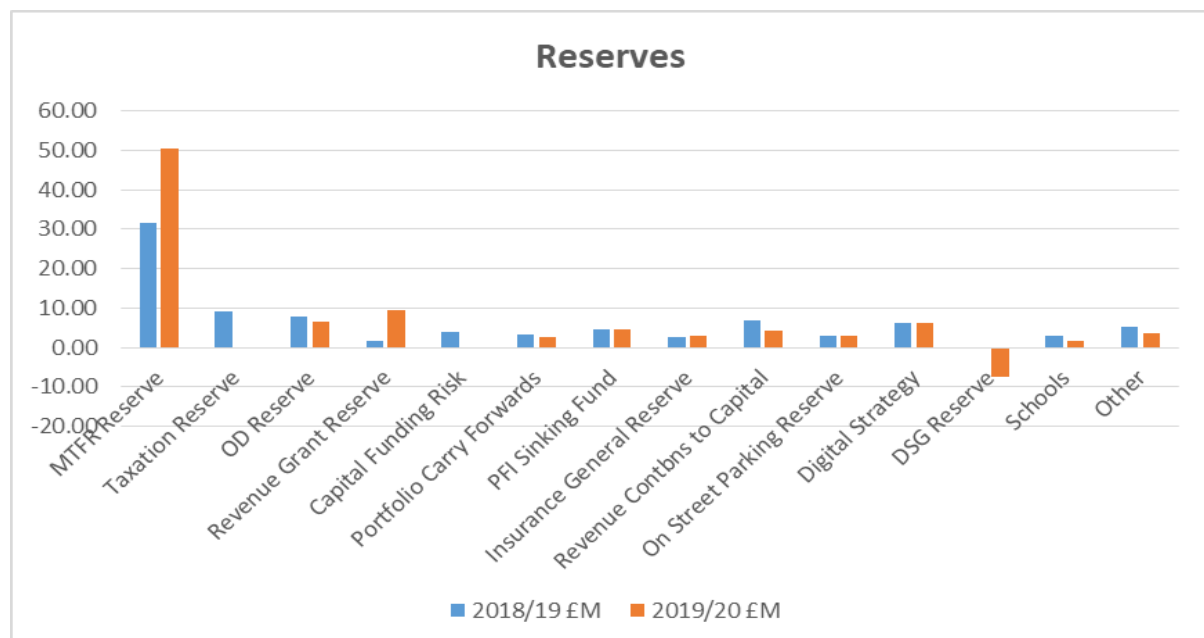
### RESERVES AND BALANCES

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

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

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of financial resources being required to support its delivery, it continues to be important that the Council maintains strong levels of reserves. Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2020. The necessity for a robust level of reserves is reinforced by the financial pressures that commenced in late 2019/20 arising from the COVID-19 situation.

The graph below highlights the changes in the value of reserves between the 31 March 2019 and 31 March 2020.



## NARRATIVE STATEMENT

The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2020/21 and the required level of minimum balance, as determined by assessing the level of risk the Council faces, is considered to be £10M (the existing level).

### PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way. The Council has in place a Strategic Risk Register which is a key document in terms of understanding and assessing the most significant risks that the Council needs to manage in order to support the delivery of its key priorities and objectives as well as being able to exploit potential opportunities.

The Strategic Risk Register is developed in consultation with Executive and Services Directors who are also provided with information on 'Core Cities' strategic risks in order to sense check against the Council's strategic risks. There is a robust process in place in respect of the review and update of the strategic risks which is undertaken quarterly. The end of quarter position is then reported to and reviewed by the Executive Management Board (Chief Executive and Executive Directors).

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

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

The emergence of the coronavirus pandemic has had a significant impact on the organisation in terms of new and emerging risks. In response, a separate Covid Risk Register has been developed and is subject to fortnightly review and reporting to the Executive Management Board, which reflects the rapidly changing nature of the risk and the responses required. It is envisaged that, at the appropriate time, this standalone risk register will eventually be subsumed as part of the Strategic Risk Register.

<b><i>Risk No</i></b>	<b><i>Risk Description</i></b>
<b><i>SR01</i></b>	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.
<b><i>SR02</i></b>	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
<b><i>SR03</i></b>	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
<b><i>SR04</i></b>	Failure to safeguard vulnerable adults resulting in a preventable incident
<b><i>SR05</i></b>	Failure to ensure an effective and sustainable adult social care system
<b><i>SR06</i></b>	Failure to safeguard children resulting in a preventable incident
<b><i>SR07</i></b>	Failure to ensure an effective and sustainable children's social care system

## NARRATIVE STATEMENT

<b>SR08</b>	Failure to meet our health and safety responsibilities
<b>SR09</b>	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures
<b>SR10</b>	Failure to maintain good governance whilst delivering organisational change and service redesign solutions
<b>SR11</b>	Failure to ensure delivery of statutory air quality standards
<b>SR12</b>	Failure by service areas to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules'
<b>SR13</b>	Failure to have in place up to date skills audits across all service areas to identify the range of skills and technical / professional expertise required to deliver services

#### 4. AN EXPLANATION OF THE FINANCIAL STATEMENTS

The Financial Statements bring together all the financial activities of the Council for the year and its financial position as at the 31 March 2020. 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>	26
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Expenditure and Funding Analysis (Not a Core Financial Statement)</b>	27
The purpose of this statement is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	28
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	

## NARRATIVE STATEMENT

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>	29
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>	30
The Balance Sheet shows the value as at the 31 March 2020 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>	31
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><li>• Investing – how much income has been generated from resources held to contribute to future service delivery</li><li>• 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.</li></ul>	
<b>Notes to the Core Financial Statements (including Accounting Policies)</b>	32 – 108
<b>Housing Revenue Account (HRA)</b>	109 - 113
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
<b>Collection Fund</b>	114 - 116
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
<b>Glossary</b>	117 - 120
<b>Annual Governance Statement</b>	121 - 135
<b>Auditor's Report and Certificate</b>	136

## 5. ISSUES AND DEVELOPMENTS

### COVID-19 Pandemic

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

Having put in place detailed business continuity plans and conducted a wide scale home working test the Council was able to respond quickly following the emergency announcement and subsequent restrictions

## NARRATIVE STATEMENT

imposed on 23 March. Non-essential services were curtailed or stopped and where possible staff identified for re-deployment into activities that have been critical to our emergency response.

The financial implications are being captured and reported regularly to the Ministry for Housing, Communities and Local Government (MHCLG). The Council has received £22.9M of CV19 related general funding, spread over 4 tranches (with tranche 1 of £7.4M received in 2019/20) as at the time of writing. £0.5M of tranche 1 was utilised for 2019/20 CV19 cost pressures, with the balance carried forward to 2020/21. Further funding has been received from Government, in relation to financial support for specific services and measures, and also where the Council has had responsibility for administering grants to be issued to assist particular groups, such as support for retail, leisure and hospitality businesses as well as to help pay council tax for those suffering hardship. The report to the 17 November Cabinet 2020 on the in-year financial position as at quarter 2 (2020/21) highlights this funding (see report entitled Budget Matters – Financial Monitoring for the period to end of September 2020). The Council is forecasting gross pressures from costs, loss of income and non-delivery of efficiency proposals for 2020/21 at around £40M - £50M, assuming council services and income are not significantly impacted by further waves of CV19, or the new lockdown commencing 5 November 2020. This could significantly increase should the crisis continue to impact.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. All COVID related adverse financial impacts will be managed, as they would with any other challenge, with sound financial reporting and governance being adhered to. We await any further announcements of Government funding support, but depending on any additional package of financial measures, the Council may need to consider proposals to address the financial strain on the revenue budget and capital programme as a consequence of the crisis.

Part of the picture which provides for financial resilience are corporate sums which provide cover for all manner of risks, which include a general fund balance of £10.1M and a Medium Term Financial Risk Reserve so far not allocated of £25.8M (but work is needed to review future funding and costs faced via the Medium Term Financial Strategy review). The contingency within the 2020/21 budget was set at approx. £7M per the February budget papers agreed by Council. The HRA balance at 31 March 2020 was £2M and this remains available to support any additional costs specific to the Housing Revenue Account.

Recognising the potential financial impact of Covid-19 on providers, the Council has either put in place directly, or worked to support and deliver Government initiatives designed to protect our communities, local business and vulnerable people. These measures include:

- 10% goodwill grant payments to Adult Social Care providers of up to £2.5M.
- Administering £40.7M of funds from Government which has provide grants of £10,000 to £25,000 to local business as part of initiatives to provide grants to smaller business in the Retail, Hospitality and Leisure sector. There will be further support for businesses shortly from a

## NARRATIVE STATEMENT

discretionary scheme, at around £2M of support, focused on small and micro businesses with fixed property costs that are not eligible for the grants under the first scheme.

- Administering the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Suspended recovery action across Council services for April and May for those unable to pay sums owed to the Council, in recognition of the financial challenges arising from the current crisis.
- Supported the homeless and rough sleepers to self-isolate in local accommodation.
- Is in the process of administering the allocation from Government of some £2M to help care homes implement and enhance their infection control measures
- Funding additional hours for staff in both Adults and Children's Social Care as they respond to the crisis and support vulnerable clients.
- Approx. £0.3M for supplies acquired for personal protective equipment (PPE) usage, which has proved adequate supply for the Council's needs.
- Emergency additional mortuary provision, provided jointly with other Hampshire authorities, as well as extra coroners costs at an estimated around £0.5M.
- Operating the emergency food hub, which has now been transferred from the Guildhall to St Mary's

Many staff have the ability to work from home during the crisis, via flexible use of IT. Where office attendance is needed for service delivery, social distancing measures have been put in place. The authority continues to implement Office 365 software to all Members and staff to further strengthen home working capability.

In terms of the Council's treasury management, the initial reaction to the COVID crisis in March meant that short term liquidity became difficult, as for example local authorities held on to their cash balances in reaction to the uncertainties. However, after the initial uncertainty the markets have returned to a more 'normal' position, with increased willingness for lending to counterparties. Government has also sought to assist cash flow by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme).

The level of uncertainty about the impact of the crisis and its duration, coupled with an uncertain funding position for the financial impact faced, means the financial position in future years is unclear. However, the Council has a good degree of financial strength, as evidenced by the recent CIPFA resilience index. That said, without further Government support our medium term financial outlook is significantly more challenging than might have been the case prior to the emergence of the Covid-19 public health crisis.

Many of the potential risks the authority may have faced at the outset of the crisis, such as service disruption and insufficient capacity or capability to respond effectively to COVID-19 and protect our vulnerable residents were avoided. As noted above, the ongoing risks are being carefully recorded, monitored and mitigated where possible within the Council's corporate framework of risk management. This includes, for example, monitoring the adequacy of PPE supplies and anticipating any 'spikes' in demand for services.

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

### Business Rate Pilot

During 2019/20, Southampton City Council has participated in a business rate retention scheme pilot working alongside Portsmouth City Council and the Isle of Wight as part of the Solent area pilot. The pilot means 75% of business rate growth was retained within the area. The pilot was awarded by Government

## NARRATIVE STATEMENT

following a competitive process against other authorities. This was the second year the authority was awarded this status, the Solent pilot bid also being successful for 2018/19.

The benefits of being part of the pilot scheme are twofold: (i) a direct financial benefit from being able to retain additional funding from the increased share of the growth in business rates Government allows to be retained locally rather than paid to Government (ii) indirect benefit from working in collaboration with other authorities and also with Government on funding issues.

The 2019/20 pilot has resulted in a financial benefit to Southampton of an additional £5.38M of extra funding. This gain has been factored into our financial planning, via the MTFS, with the extra funding helping to close future budget shortfalls and alleviating some of the pressure for short term savings.

The Solent business rate pilot came to an end as at 31 March 2020, as did all other pilot schemes nationally as Government always intended this arrangement to be time limited. In due course, Government will bring forward plans to increase the local share of business rate growth from the current 50% allocated to local authorities, informed by the lessons learnt from the pilot work.

### Capita Services Moved in-House

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

Accordingly, on 23 July 2019 the following services and associated staff, assets and contracts transferred back to Southampton City Council:

- IT
- Procurement
- Customer Services
- Print Management
- Revenues and Benefits
- Various HR services (Learning and Development, Health and Safety, Payroll)
- Over 240 staff
- Nearly 200 contracts (the majority being IT contracts)

The transfer has been successful. There were some problems that are typical in such a large transfer such as missing HR data, lack of access to key systems for some individuals, lack of familiarity with SCC procedures etc; but the principal risks of interruption to services, new staff not being paid, contracts not transferring or substantial numbers of non-attenders on transfer day were all successfully managed. The project was completed in September 2019 and the Council's Overview and Scrutiny Management Committee received a copy of the project closure report at its meeting in November 2019.

### Transforming Cities Fund (TCF)

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

This is a significant success for the Council. It will enable a series of enhancements to be made in the local transport infrastructure including measures to such as cycling, park & ride, active travel zones, local mobility hubs, and use of smart technology.



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### Progression of the Digital Strategy

Southampton City Council aims to be a fit for purpose organisation which is modern and sustainable. An increasingly central part of achieving this will be the successful application of digital capabilities and new technologies, both internally within the Council and for the benefit of our customers. Our ambitions are set out in the Digital Strategy (2018-2022) which will contribute towards achieving the outcomes detailed in the Southampton City Council Strategy 2020-25.

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

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

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

- 1) Has implemented an Enterprise Resource Planning system – Business World (which went live in October 2019). This supports the consolidation of a number of IT applications; rationalisation and streamlining of business processes across the Council; improves payment processes for the customer; and improves management information to enable more informed decision making.
- 2) Progressing the implementation of a new Client Case Management system (CCM). This system enables the statutory need to keep a record of social care client information and interactions such as client visits, chronologies and payment for care packages.
- 3) Has a programme to replace end of life IT equipment used by staff in ways that enable more mobile, flexible working and support a work from anywhere culture.
- 4) Agreed funding from HRA capital to replace end of life equipment and replace out of date and legacy IT and digital solutions within Housing Operations.
- 5) Implementing Office 365 for all staff.
- 6) Upgrading and expanding the use of Customer Relationship Management so that contact centre and all online forms and digital content originate from one, consistent, system.

The move to enable staff to work at home to the maximum extent possible under the COVID situation has highlighted the importance of the continued investment in IT and the ability for flexible working from different locations further enabling and supporting the 'work from anywhere culture'. This will continue to be important in 2020/21 and beyond.

### Oaklands Development

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes. The aim is for all of these to be affordable homes, there will be a mix of Council rented and shared ownership properties. The Ministry of Housing, Communities and Local Government defines social and affordable homes as social, affordable and intermediate which includes shared ownership. The shared ownership element of the properties will be privately owned. This development is estimated to cost £18.3M and will be funded from a mix of Council borrowing, right to buy income, the upfront sale of the shared ownership properties and if required it would be possible to sell some of the units outright.

### Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2019/20 and the implementation of International Financial Reporting Standard (IFRS) 16 Leases, previously expected to be applied from 2020/21, has been deferred until 2021/22.

# STATEMENT OF RESPONSIBILITIES

## 1. The Council's Responsibilities

The Council is required to:

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

## 2. The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts the S151 Officer has:

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

The S151 Officer has also:

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

## 3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2020 and of its income and expenditure for the year ended 31 March 2020.

Signed **J Harrison** \_\_\_\_\_ Date  
Section 151 Officer

## 4. Approval of the Accounts

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

Signed **E Keogh** \_\_\_\_\_ Date  
Chair, Governance Committee

# THE FINANCIAL STATEMENTS

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the councils services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 52.

<u>2018/19 Restated</u>				2019/20		
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
70,995	(1,129)	69,866	Adults	69,081	4,170	73,251
45,576	9,126	54,702	Aspiration, Children & Lifelong Learning	55,279	21,354	76,633
1,229	603	1,832	Green City & Environment	946	576	1,522
(5,678)	72	(5,606)	Healthier & Safer City	(5,629)	(583)	(6,212)
6,838	2,723	9,561	Homes & Culture	8,087	3,159	11,246
1,240	9,316	10,556	Leader	1,854	9,584	11,438
23,225	1,810	25,035	Place & Transport	23,274	4,736	28,010
42,444	12,467	54,911	Resources	33,180	1,808	34,988
(16,575)	1,857	(14,718)	Housing Revenue Account (HRA)	(15,508)	(30)	(15,538)
273	(488)	(215)	Housing Benefit	(642)	(580)	(1,222)
(475)	(876)	(1,351)	Green City & Environment Trading	(423)	(619)	(1,042)
0	1,659	1,659	Other Income & Expenditure	0	1,482	1,482
			<b>Other items of expenditure and income:</b>			
			Correction for Housing Improvement Loans	0	(3,721)	(3,721)
0	1,591	1,591	Revaluation & Impairment of General Fund Assets	0	13,979	13,979
992	333	1,325	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	18,383	18,383
<b>170,084</b>	<b>39,064</b>	<b>209,148</b>	<b>Cost of Services</b>	<b>169,499</b>	<b>73,698</b>	<b>243,197</b>
<b>(171,423)</b>	<b>(23,150)</b>	<b>(194,573)</b>	<b>Other Income &amp; Expenditure</b>	<b>(168,596)</b>	<b>(42,751)</b>	<b>(211,347)</b>
<b>(1,339)</b>	<b>15,914</b>	<b>14,575</b>	<b>(Surplus)/Deficit</b>	<b>903</b>	<b>30,947</b>	<b>31,850</b>
(97,393)			Opening General Fund Balance	(98,732)		
(2,000)			Opening HRA Balance	(2,000)		
(1,339)			Less/Plus Deficit/(Surplus) on General Fund	903		
0			Less/Plus Deficit/(Surplus) on HRA	0		
(98,732)			Closing General Fund Balance	(97,829)		
(2,000)			Closing HRA Balance	(2,000)		
<b>(100,732)</b>			<b>Closing General Fund &amp; HRA Balance</b>	<b>(99,829)</b>		

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

2018/19 Restated				2019/20			
Expenditure	Income	Net		Expenditure	Income	Net	
£000	£000	£000		Notes	£000	£000	
100,405	(30,539)	69,866	Adults		107,088	(33,837)	73,251
209,948	(155,246)	54,702	Aspiration, Children & Lifelong Learning		234,380	(157,747)	76,633
6,049	(4,217)	1,832	Green City & Environment		5,940	(4,418)	1,522
12,250	(17,856)	(5,606)	Healthier & Safer City		11,238	(17,450)	(6,212)
15,395	(5,834)	9,561	Homes & Culture		16,941	(5,695)	11,246
13,642	(3,086)	10,556	Leader		14,551	(3,113)	11,438
51,062	(26,027)	25,035	Place & Transport		57,698	(29,688)	28,010
60,390	(5,479)	54,911	Resources		40,208	(5,220)	34,988
64,112	(78,830)	(14,718)	Housing Revenue Account (HRA)		63,484	(79,022)	(15,538)
81,043	(81,258)	(215)	Housing Benefit		71,441	(72,663)	(1,222)
(395)	(956)	(1,351)	Green City & Environment Trading		(57)	(985)	(1,042)
1,659	0	1,659	Other Income & Expenditure		1,730	(248)	1,482
			<b>Other items of expenditure and income:</b>	6			
			Correction for Housing Improvement Loans		(3,721)	0	(3,721)
1,591	0	1,591	Revaluation & Impairment of General Fund Assets		13,979	0	13,979
1,325	0	1,325	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		18,383	0	18,383
<b>618,476</b>	<b>(409,328)</b>	<b>209,148</b>	<b>Cost of Services</b>	8	<b>653,283</b>	<b>(410,086)</b>	<b>243,197</b>
18,350	(9,471)	8,879	Loss/ (Gain) on the disposal of Non Current Assets	12c	9,217	(12,132)	(2,915)
680	0	680	Contributions to Other Local Public Bodies		691	0	691
1,792	0	1,792	Contributions of Housing Capital Receipts to Government Pool		4,152	0	4,152
<b>20,822</b>	<b>(9,471)</b>	<b>11,351</b>	<b>Other Operating Expenditure</b>		<b>14,060</b>	<b>(12,132)</b>	<b>1,928</b>
(2,323)	(9,687)	(12,010)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	16,172	(9,423)	6,749
17,183	0	17,183	Interest payable and similar charges	11	18,159	0	18,159
0	(2,114)	(2,114)	Interest and Investment Income	11	0	(785)	(785)
11,690	0	11,690	Net interest on the defined benefit liability (asset)	34b	10,648	0	10,648
<b>26,550</b>	<b>(11,801)</b>	<b>14,749</b>	<b>Financing, and Investment Income &amp; Expenditure</b>		<b>44,979</b>	<b>(10,208)</b>	<b>34,771</b>
0	(95,143)	(95,143)	Council Tax Income		0	(98,307)	(98,307)
0	(104,840)	(104,840)	Business Rates		0	(81,437)	(81,437)
0	12,499	12,499	General Government Grants	37c	0	(13,807)	(13,807)
0	(33,189)	(33,189)	Capital Grants and Contributions	37b	0	(54,495)	(54,495)
<b>0</b>	<b>(220,673)</b>	<b>(220,673)</b>	<b>Taxation and Non-Specific Grant Income</b>		<b>0</b>	<b>(248,046)</b>	<b>(248,046)</b>
<b>665,848</b>	<b>(651,273)</b>	<b>14,575</b>	<b>Deficit/ (Surplus) on the Provision of Services</b>		<b>712,322</b>	<b>(680,472)</b>	<b>31,850</b>
		(55,945)	Deficit/ (Surplus) on revaluation of non current assets	22a			(35,094)
		0	Impairment losses/ (gains) on non-current assets charged to the revaluation reserve	22a			0
		460	Deficit/ (Surplus) on revaluation of available for sale financial assets	17d			0
		(38,270)	Remeasurements of the net defined benefit liability (asset)	34b			8,970
		<b>(93,755)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(26,124)</b>
		<b>(79,180)</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>5,726</b>

# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2018</b>	(11,316)	(86,077)	(2,000)	0	(27,514)	0	(19,371)	(146,278)	(731,320)	(877,598)
<b>Movement in Reserves during 2018/19</b>										
Total Comprehensive Income and Expenditure	25,828		(11,253)					14,575	(93,755)	(79,180)
Adjustments between accounting basis and funding basis under regulations (note 10)	(27,167)		11,253		3,200		(9,859)	(22,573)	22,573	0
Transfers to / (from) earmarked reserves (note 9)	2,589	(2,589)						0		0
<b>(Increase) / Decrease in Year</b>	<b>1,250</b>	<b>(2,589)</b>	<b>0</b>	<b>0</b>	<b>3,200</b>	<b>0</b>	<b>(9,859)</b>	<b>(7,998)</b>	<b>(71,182)</b>	<b>(79,180)</b>
<b>Balance at 31 March 2019</b>	<b>(10,066)</b>	<b>(88,666)</b>	<b>(2,000)</b>	<b>0</b>	<b>(24,314)</b>	<b>0</b>	<b>(29,230)</b>	<b>(154,276)</b>	<b>(802,502)</b>	<b>(956,778)</b>

# THE FINANCIAL STATEMENTS

## Balance Sheet

<u>31 March 2019</u>		<u>31 March 2020</u>
£000	Notes	£000
1,422,894	Property, Plant & Equipment	1,461,929
190,249	Heritage Assets	190,249
134,948	Investment Properties	118,145
6,711	Intangible Assets	7,045
30,511	Long Term Investments	29,502
28	Long Term Debtors	3,733
<b>1,785,341</b>	<b>Non Current Assets</b>	<b>1,810,603</b>
14,065	Short Term Investments	436
0	Assets held for Sale	0
889	Stock (Inventories)	907
37,815	Short Term Debtors	47,590
26,146	Cash & Cash Equivalents	31,217
<b>78,915</b>	<b>Current Assets</b>	<b>80,150</b>
(3,367)	Cash & Cash Equivalents	(4,352)
(364)	Deferred Liabilities	(364)
(87,325)	Short Term Borrowing	(55,214)
(79,375)	Short Term Creditors	(72,857)
(7,780)	Provisions	(8,773)
<b>(178,211)</b>	<b>Current Liabilities</b>	<b>(141,560)</b>
(54,004)	Long Term Creditors	(51,002)
(11,677)	Provisions	(6,516)
(160,875)	Long Term Borrowing	(222,597)
	Other Long Term Liabilities	
(13,826)	- Deferred Liabilities	(13,462)
(29,245)	- Cap. Grants & Conts Receipts in Advance	(12,418)
(459,640)	- Pension Fund Liability	(492,146)
<b>(729,267)</b>	<b>Long Term Liabilities</b>	<b>(798,141)</b>
<b>956,778</b>	<b>Net Assets</b>	<b>951,052</b>
	<b>Useable Reserves</b>	
(24,314)	Useable Capital Receipts Reserve	(24,089)
(29,230)	Cap. Grants & Conts Unapplied	(50,633)
(88,666)	Earmarked Revenue Reserves	(87,763)
(10,066)	General Fund Balance	(10,066)
(2,000)	Housing Revenue Account Balance	(2,000)
<b>(154,276)</b>		<b>(174,551)</b>
	<b>Unuseable Reserves</b>	
(382,661)	Revaluation Reserve	(411,319)
(451)	Pooled Fund Adjustment Account	531
(875,433)	Capital Adjustment Account	(861,080)
189	Financial Instruments Adjustment Account	113
459,640	Pension Reserve	492,146
(5,516)	Collection Fund Adjustment Account	1,159
1,730	Accumulated Absences Account	1,949
<b>(802,502)</b>		<b>(776,501)</b>
<b>(956,778)</b>	<b>Total Reserves</b>	<b>(951,052)</b>

# THE FINANCIAL STATEMENTS

## Cash Flow Statement

<u>2018/19</u>		<u>2019/20</u>
£000		Notes      £000
(14,575)	Net surplus or (deficit) on the provision of services	(31,850)
108,043	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)    98,271
<u>(45,266)</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>(69,872)</u>
<b>48,202</b>	<b>Net Cash Flows From Operating Activities</b>	<b>(3,451)</b>
(31,234)	Net Cash flows from Investing Activities	23 c)    (22,353)
(19,365)	Net Cash flows from Financing Activities	23 d)    29,890
<u><b>(2,397)</b></u>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>4,086</b>
25,176	Cash and cash equivalents at the beginning of the reporting period	23 e)    22,779
<u><b>22,779</b></u>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e) <u><b>26,865</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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## NOTES TO THE CORE FINANCIAL STATEMENTS

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# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

These Financial Statements summarise the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position for 2020/21 and is considering its impact on future years. This included consideration of the following:-

- Additional expenditure, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to social care and temporary accommodation for the homeless), and additional costs from protective measures.
- Loss of income due to temporary closures, reduction in demand, and increased collection losses.
- Changes to government policy, e.g. changes to business rate reliefs, additional funding for local authorities, and additional responsibilities which sit alongside this.
- Likely support from Government for loss of sales, fees and charges income.
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
- The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash, impact on investment returns and availability of external borrowing.
- The estimated overall impact on the Council's General Fund and Housing Revenue Account funding position and further risks to which the Council may be exposed.

This review has highlighted that COVID-19 poses a significant financial challenge for the Council, as it will for all local authorities. To reflect this, the financial monitoring report (to the end of September 2020) presented to cabinet in November provided an update on the specific effects of COVID-19 on the financial position of the Council and how it is being addressed. After allowing for Government grants received so far (four separate tranches of around £22.9M), there is an estimated in-year shortfall of £23.2M. Actions proposed to mitigate this would address £19.1M, leaving a potential risk of around £4.0M expected to be met from uncommitted reserves should no further Government funding be forthcoming. There is headroom left in corporate budgets, reserves and the general fund balance, if needed, to address this and any further risks arising from the financial impact of COVID-19. For example, the Medium Term Financial Risk Reserve, which would remain at £25.8M uncommitted and be available for any further risks, COVID-19 related or otherwise. A further £2.8M would also be available in the social care demand reserve.

Going into 2021/22, initial indications are that the authority may be in a position of using reserves further and only having a residual minimum working General Fund balance left as available. This is largely attributable to the combined effects of COVID-19 across a number of service areas, producing a loss of income, higher costs and making savings targets harder to achieve. However, further work is underway for the 2021/22 budget, and the intention will be to ensure headroom is maintained in reserves and balances above the minimum level deemed as necessary.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

### b) Accruals of Income and Expenditure

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

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

### c) Cash and Cash Equivalents

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

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Charges to Revenue for Non-current Assets

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

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

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

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

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

#### *Accounting for Council Tax and NDR*

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

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

### g) 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

### *Post-Employment Benefits*

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

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

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

### *Local Government Pension Scheme*

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

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

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

### *Service Cost comprising:*

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Remeasurements comprising:*

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

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

### *Teachers' Pension Scheme*

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

## **h) Events after the Reporting Period**

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

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

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

## **i) Financial instruments**

### *Financial Liabilities*

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the

## NOTES TO THE CORE FINANCIAL STATEMENTS

Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

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

### *Financial Assets*

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

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

#### Financial Assets Measured at Amortised Cost

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

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

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

#### Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

- The Council will comply with the conditions attached to the payments; and

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The grants or contributions will be received.

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

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

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

### *Business Improvement District (BID)*

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

### *Community Infrastructure Levy (CIL)*

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

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

## **k) Heritage Assets**

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

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

### *Heritage Assets on the Balance Sheet*

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### *Heritage Assets not on the Balance Sheet*

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

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

### **l) Interests in Companies and Other Entities**

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

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

### **m) Investment Property**

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

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

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

### **n) Joint Operations**

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint

## NOTES TO THE CORE FINANCIAL STATEMENTS

operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

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

### **o) Leases**

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

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

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

#### *The Council as Lessee*

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

#### *The Council as Lessor*

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

### **p) Overheads and Support Services**

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

### **q) Property, Plant and Equipment**

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

#### *Recognition*

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

### *Impairment*

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

### *Depreciation*

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

Depreciation is calculated on the following bases:

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

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

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

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

transferred to the Useable Capital Receipts from the General Fund Balance in the MiRS.

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

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

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

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

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

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

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

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

#### *Provisions*

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

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another

## NOTES TO THE CORE FINANCIAL STATEMENTS

party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### *Contingent Liabilities*

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

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

### *Contingent Assets*

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

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

## **t) Reserves**

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

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

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

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

## **v) Value Added Tax (VAT)**

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

## **w) Fair Value Measurement**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

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

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

### x) Schools

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

### y) Rounding Convention

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

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2020/21 Code. New standards that are expected to be introduced in the 2020/21 Code that apply from 1 April 2020 are:

- Amendments to IAS 28 *Investments in Associates and Joint Ventures*: Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 3. Critical Judgements in Applying Accounting Policies

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

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

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government, with the deferral of the Government's medium term Spending Review in 2019, postponement of the implementation of the Fair Funding Review, delays to the Adult Social Care funding green paper and uncertainties over the impact of the COVID-19 pandemic on major income streams. 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.
- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools in line with the provisions of the Code, and they are recognised on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

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

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

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

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

The table below illustrates the number and type of schools:



## NOTES TO THE CORE FINANCIAL STATEMENTS

Status as at 31 March 2020	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	11	5	2	29
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	3	2	13	3	4	25
Foundation Trust	1	1	7	3	1	13
Free Schools			1			1
<b>Grand Total</b>	<b>10</b>	<b>8</b>	<b>38</b>	<b>12</b>	<b>7</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 an Academy the Council accounts for this as a disposal for nil consideration.
- Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss.
- Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- Interests in Other Entities** – The Council has assessed that an interest in another entity falls within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However the Council's interest is not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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>	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £964.0M of assets were valued at current value in 2019/20.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £9.6M.
<b>Investment Property</b>	<p>The Council values its Investment Property annually and the fair value at 31 March 2020 was £118.1M.</p> <p>The initial 3-week lockdown period to control the coronavirus outbreak was put in place shortly before 31 March 2020 and there was little indication at that date of any significant effect on property values. It is unclear at this stage what impact the COVID-19 pandemic will have on property values and there is a risk of material changes to during the next year.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>A 1% change to the IP valuations would change the report value of IP by £1.2M.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.6M if the useful lives were reduced by one year.</p>
<b>Arrears</b>	At 31 March 2020, the Council had a balance of trade debtors of £17.9M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, current and forecast economic conditions, is £6.8M, which represents 38% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 50% of the balance, it would require an additional £2.1M 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 liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the year end NDR appeals provision by £1.3M.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<p>estimate of the amount businesses have been overcharged up to the 31 March 2020, the Council's share of which is £13.0M.</p> <p>The estimate is a percentage of the gross rates yield after reliefs, based on national assumptions about refund levels and a review of the Valuation Office Agency (VOA) list of appeals outstanding and projected appeals.</p>	
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. To arrive at an estimate as at 31 March 2020 a full calculation of accounting liabilities has been carried out based on the latest valuation, rather than an approximate roll-forward as in previous years.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2020 and the projected service cost for the year ending 31 March 2020 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
<b>Funded LGPS Benefits Discount rate assumption</b>		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,282.294	1,336.734
% change of present value of total obligation	-2.1%	2.1%
Projected service cost (£M's)	40.985	44.076
Approximate % change in projected service cost	-3.6%	3.7%
<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)	1,311.450	1,307.033
% change of present value of total obligation	0.2%	-0.2%
Projected service cost (£M's)	42.506	42.506
Approximate % change in projected service cost	0.0%	0.0%
<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)	1,334.372	1,284.642
% change of present value of total obligation	1.9%	-1.9%
Projected service cost (£M's)	44.076	40.985
Approximate % change in projected service cost	3.7%	-3.6%
<b>Post retirement mortality assumption</b>		

## NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,350.500	1,268.299
% change of present value of total obligation	3.2%	-3.1%
Projected service cost (£M's)	44.091	40.934
Approximate % change in projected service cost	3.7%	-3.7%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

### 5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from June 2019. Prior year comparatives have been updated to reflect the new structure. In the EFA the £170.084M Net Expenditure Chargeable to the General Fund and HRA Balances, £39.064M Adjustments between the Funding and Accounting Basis and £209.148M Net Expenditure in the CIES for Cost of Services have not changed as a result of the 2018/19 restatement. In the CIES the £618.476M Expenditure, -£409.328M Income and £209.148M Net Expenditure for Cost of Services have not changed as a result of the 2018/19 restatement.

No other prior period adjustments have been made.

### 6. Other Items of Expenditure and Income

#### Revaluation and Impairment of Property Plant and Equipment

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

#### Housing Improvement Loans

In previous years housing improvement loans were treated as Revenue Expenditure Funded by Capital under Statute (REFCUS) and charged to the Cost of Services in the Comprehensive Income and Expenditure Statement. This treatment was incorrect as the loans are repayable. An adjustment has been made in 2019/20 to reduce REFCUS and recognise outstanding home improvement loans as long term debtors. This correction has not been treated as a prior period adjustment because the amount involved is not material to the accounts.

### 7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on the 16 November 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the impact of the continuation of measures to control the coronavirus outbreak beyond the initial 3-week lockdown period, as these were announced after 31 March 2020. It is not possible at this stage to estimate the effects of events after 31 March 2020 relating to the pandemic on the financial statements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 8. Expenditure and Funding Analysis

#### a) Notes to the Expenditure and Funding Analysis

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

#### Adjustments for Capital Purposes

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

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

#### Net Change for the Pensions Adjustments

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

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

#### Other Differences

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2019/20

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Adults	165	3,417	588	4,170
Aspiration, Children & Lifelong Learning	11,404	4,723	5,227	21,354
Green City & Environment	319	367	(110)	576
Healthier & Safer City	13	273	(869)	(583)
Homes & Culture	3,857	676	(1,374)	3,159
Leader	1,406	2,087	6,091	9,584
Place & Transport	6,853	2,600	(4,717)	4,736
Resources	1,153	(1,879)	2,534	1,808
Housing Revenue Account (HRA)	0	488	(518)	(30)
Housing Benefit	0	0	(580)	(580)
Green City & Environment Trading	(48)	137	(708)	(619)
Other Income & Expenditure	0	0	1,482	1,482
<b>Other items of expenditure and income:</b>				
Correction for Housing Improvement Loans	(3,721)	0	0	(3,721)
Revaluation & Impairment of General Fund Assets	13,979	0	0	13,979
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	18,383	0	0	18,383
<b>Cost of Services</b>	<b>53,763</b>	<b>12,889</b>	<b>7,046</b>	<b>73,698</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(51,297)</b>	<b>10,647</b>	<b>(2,101)</b>	<b>(42,751)</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>2,466</b>	<b>23,536</b>	<b>4,945</b>	<b>30,947</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2018/19 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences	Total Adjustments £000
Adults	232	2,289	(3,650)	(1,129)
Aspiration, Children & Lifelong Learning	8,741	2,917	(2,532)	9,126
Green City & Environment	209	356	38	603
Healthier & Safer City	13	175	(116)	72
Homes & Culture	3,332	555	(1,164)	2,723
Leader	2,975	1,413	4,928	9,316
Place & Transport	6,417	2,016	(6,623)	1,810
Resources	771	9,705	1,991	12,467
Housing Revenue Account (HRA)	0	2,375	(518)	1,857
Housing Benefit	0	0	(488)	(488)
Green City & Environment Trading	(303)	129	(702)	(876)
Other Income & Expenditure	0	0	1,659	1,659
<b>Other items of expenditure and income:</b>				
Revaluation & Impairment of General Fund Assets	1,591	0	0	1,591
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	333	0	0	333
<b>Cost of Services</b>	<b>24,311</b>	<b>21,930</b>	<b>(7,177)</b>	<b>39,064</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(19,451)</b>	<b>11,690</b>	<b>(15,389)</b>	<b>(23,150)</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>4,860</b>	<b>33,620</b>	<b>(22,566)</b>	<b>15,914</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Analysis of income and expenditure by nature

2018/19 £000	Analysis of income and expenditure by nature	2019/20 £000
	<b>Income</b>	
(122,766)	Revenue from contracts with service recipients	(124,883)
(296,485)	Government grants and contributions	(344,624)
(10,767)	Other service income	(8,881)
(9,687)	Income in relation to investment properties	(9,423)
(2,114)	Interest and investment income	(785)
(199,983)	Income from council tax and non-domestic rates	(179,744)
(9,471)	Proceeds from the disposal of non-current assets	(12,132)
<b>(651,273)</b>		<b>(680,472)</b>
	<b>Expenditure</b>	
240,562	Employee benefits expenses	254,556
333,839	Other service expenses	322,935
42,431	Depreciation, amortisation, impairments and revaluations	92,655
17,183	Interest payable and similar charges	18,159
11,690	Net interest expense on the pension defined liability	10,648
1,792	Payments to Housing Capital Receipts Pool	4,152
18,351	Costs from the disposal of non-current assets	9,217
<b>665,848</b>	<b>Total Expenditure</b>	<b>712,322</b>
<b>14,575</b>	<b>Surplus (-) or Deficit (+) on the Provision of Services</b>	<b>31,850</b>

### c) Analysis of service income

Analysis of Service Income 2019/20	Government Grants and Contributions £000	Revenue from Contracts with Service £000	Other Service Income £000	Total Service Income £000
Adults	(21,642)	(12,195)	0	(33,837)
Aspiration, Children & Lifelong Learning	(152,763)	(4,758)	(226)	(157,747)
Green City & Environment	(802)	(3,177)	(439)	(4,418)
Healthier & Safer City	(17,311)	(110)	(29)	(17,450)
Homes & Culture	(3,372)	(2,029)	(294)	(5,695)
Leader	(1,144)	(1,749)	(220)	(3,113)
Place & Transport	(4,948)	(17,951)	(6,789)	(29,688)
Resources	(1,670)	(3,549)	(1)	(5,220)
Housing Revenue Account (HRA)	0	(78,139)	(883)	(79,022)
Housing Benefit	(72,663)	0	0	(72,663)
Green City & Environment Trading	(7)	(978)	0	(985)
Other Income & Expenditure	0	(248)	0	(248)
	<b>(276,322)</b>	<b>(124,883)</b>	<b>(8,881)</b>	<b>(410,086)</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2018/19 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Adults	(17,974)	(12,565)	0	(30,539)
Aspiration, Children & Lifelong Learning	(149,271)	(5,923)	(52)	(155,246)
Green City & Environment	(421)	(3,453)	(343)	(4,217)
Healthier & Safer City	(17,747)	(80)	(29)	(17,856)
Homes & Culture	(3,624)	(1,083)	(1,127)	(5,834)
Leader	(1,022)	(1,772)	(292)	(3,086)
Place & Transport	(4,123)	(17,048)	(4,856)	(26,027)
Resources	(2,538)	(1,932)	(1,009)	(5,479)
Housing Revenue Account (HRA)	0	(77,957)	(873)	(78,830)
Housing Benefit	(79,075)	0	(2,183)	(81,258)
Green City & Environment Trading	0	(953)	(3)	(956)
Other Income & Expenditure	0	0	0	0
	<b>(275,795)</b>	<b>(122,766)</b>	<b>(10,767)</b>	<b>(409,328)</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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Balance</u> <u>31 March</u> <u>2019</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2019/20</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2019/20</u>	<u>Balance</u> <u>31 March</u> <u>2020</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b><u>Earmarked Reserves</u></b>				
<b><u>General Fund</u></b>				
Medium Term Financial Risk Reserve	(31,559)	(18,759)		(50,318)
Taxation Reserve	(8,980)		8,980	0
Organisational Design Reserve	(7,754)		1,114	(6,640)
Revenue Grant Reserve - General	(1,778)	(7,743)		(9,521)
Capital Funding Risk Reserve	(4,031)		4,031	0
Portfolio Carry Forwards Reserve	(3,157)		554	(2,603)
PFI Sinking Fund	(4,549)		26	(4,523)
Insurance Reserve	(2,541)	(267)		(2,808)
On Street Parking	(3,042)	(53)		(3,095)
Digital Strategy Reserve	(6,155)	(1)		(6,156)
Dedicated Schools Grant Reserve	0		7,420	7,420
General Fund Contributions to Capital	(6,896)		2,640	(4,256)
Other Reserves	(5,369)		1,671	(3,698)
	<u>(85,811)</u>	<u>(26,823)</u>	<u>26,436</u>	<u>(86,198)</u>
<b><u>Schools</u></b>				
School Balances	(2,855)		1,290	(1,565)
	<u>(88,666)</u>	<u>(26,823)</u>	<u>27,726</u>	<u>(87,763)</u>

The purpose of the main reserves are noted below:

### **Medium Term Financial Risk Reserve**

As part of the Council's Medium Term Financial Strategy (MTFS) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed. A number of separate reserves have been consolidated into this reserve during 2019/20.

### **Taxation Reserve**

Monies have been set aside to mitigate against any loss of income from both business rates and council tax, to enable a smoothing of the impact. This reserve has been consolidated into the MTFR Reserve during 2019/20.

### **Organisational Design Reserve**

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

### **Revenue Grants Reserve – General**

This reserve holds grant funding that has been ring-fenced to be used in future years. £6.9M of the balance at 31 March 2020 is for COVID-19 Emergency Funding Grant received at the end of the financial year.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Capital Funding Risk Reserve**

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. This reserve has been consolidated into the MTFR Reserve during 2019/20.

### **Portfolio Carry Forward Reserve**

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

### **PFI Sinking Fund**

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

### **Insurance Reserve**

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

### **On Street Parking Reserve**

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

### **Digital Strategy Reserve**

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

### **Dedicated Schools Grant Reserve**

This is a new reserve set up in accordance with the School and Early Years Finance (England) Regulations 2020 to carry forward a deficit to be funded from future Dedicated Schools Grant (DSG) income. Further details on the deployment of DSG are provided in Note 28.

### **General Fund Contributions to Capital**

This reserve holds monies to finance the capital programme.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 10. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

2018/19	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(1,215)							(1,215)	1,215	0
Depreciation (and amounts equal to) and Impairment of Non Current Assets	(24,338)		(20,864)					(45,202)	45,202	0
Movement on Market Value of Investment Properties	3,916		68					3,984	(3,984)	0
Capital Grants and Contributions Applied	22,734		3,058					25,792	(25,792)	0
Capital Grants and Contributions Unapplied	9,859						(9,859)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(5,206)							(5,206)	5,206	0
Short-term Accumulating Compensated Absences Account	269							269	(269)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	496							496	(496)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(56,641)		(6,879)					(63,520)	63,520	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	26,662		3,238					29,900	(29,900)	0
Statutory Provision for the Financing of Capital Investment	7,421							7,421	(7,421)	0
Voluntary Provision for the Financing of Capital Investment			5,502					5,502	(5,502)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,792)				1,792			0	0	0
Capital expenditure charged in-year to the General Fund Balance	545		4,876					5,421	(5,421)	0
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	1,730							1,730	(1,730)	0
Transfers to/(from) Major Repairs Reserve			19,539			(19,539)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,539		19,539	(19,539)	0
Amortisation of Item 8 Discount			(12)					(12)	12	0
Capital Receipts in Year	1,836		7,635		(9,471)			0	0	0
Non-current Asset Disposals	(13,443)		(4,908)					(18,351)	18,351	0
Capital Receipts Financing of New Capital Expenditure					10,879			10,879	(10,879)	0
	(27,167)	0	11,253	0	3,200	0	(9,859)	(22,573)	22,573	0

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Interest Payable and Receivable

<b>Interest Payable and Similar Charges</b>		
<b><u>2018/19</u></b>		<b><u>2019/20</u></b>
<b>£000</b>		<b>£000</b>
7,383	Interest on External Loans	7,498
6,708	PFI Schemes	7,095
375	Payments to HCC in respect of Transferred Debt	372
117	Other	225
<u>2,600</u>	Movement of impairment allowance & debt write-offs	<u>2,969</u>
<b><u>17,183</u></b>		<b><u>18,159</u></b>

<b>Interest and Investment Income</b>		
<b><u>2018/19</u></b>		<b><u>2019/20</u></b>
<b>£000</b>		<b>£000</b>
(1,674)	Investments	(1,745)
(19)	HRA Cash Balances	(22)
<u>(421)</u>	(Gain) /Loss on Financial Instruments	<u>982</u>
<b><u>(2,114)</u></b>		<b><u>(785)</u></b>

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

PPE are shown at a current valuation of £1,462M (2018/19 £1,423M), an increase of £39M (2018/19 £70M increase). The basis of valuation is explained in more detail in Note 1q) (Accounting Policies). The values are shown as at 31 March 2020.

#### a) Depreciation

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

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

#### b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements

## NOTES TO THE CORE FINANCIAL STATEMENTS

since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

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 2019/20 there was a £2.9M gain (2018/19 - £8.9M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, of which £3.9M (2018/19 - £2.8M) relates to the Housing Revenue Account.

### **d) Current Value**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried at Historic Cost</b>			33,578	227,865	3,583		40,921	305,947
<b>Valued at Fair Value in:</b>								
2019/20	634,904	327,693				1,366		963,963
2018/19		87,699						87,699
2017/18		11,877						11,877
2016/17		9,064						9,064
2015/16		83,251				71		83,322
Deminimus		57						57
<b>Net Book Value as at 31 March 2020</b>	<b>634,904</b>	<b>519,641</b>	<b>33,578</b>	<b>227,865</b>	<b>3,583</b>	<b>1,437</b>	<b>40,921</b>	<b>1,461,929</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movement in Property, Plant &amp; Equipment (PPE) 2018/19</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 2018	670,605	650,009	53,521	228,402	3,646	3,031	11,209	<b>1,620,423</b>	75,553
Adjustment to Previous Year Charges		(136,741)						<b>(136,741)</b>	
	670,605	513,268	53,521	228,402	3,646	3,031	11,209	<b>1,483,682</b>	75,553
Additions	29,074	5,219	1,429	23,161	0	0	17,817	<b>76,700</b>	
Donations	0	0	0	0	0	0	0	<b>0</b>	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	37,388	0	0	0	0	0	<b>37,388</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(21,894)	(14,860)	0	0	251	6	0	<b>(36,497)</b>	1,343
Derecognition-Disposals	(4,907)	(14,896)	0	0	0	0	0	<b>(19,803)</b>	
Derecognitions- Fully Depreciated	0	0	(7,917)	0	0	0	0	<b>(7,917)</b>	
Reclassified outside PPE	0	0	0	0	0	197	0	<b>197</b>	
Other Reclassifications	124	(124)	0	0	0	0	0	<b>0</b>	
<b>At 31 March 2019</b>	<b>673,002</b>	<b>525,995</b>	<b>47,033</b>	<b>251,563</b>	<b>3,897</b>	<b>3,234</b>	<b>29,026</b>	<b>1,533,750</b>	<b>76,896</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2018	(19,264)	(189,330)	(18,539)	(40,620)	(49)	0		<b>(267,802)</b>	(11,339)
Adjustment to Previous Year Charges		136,741						<b>136,741</b>	
	(19,264)	(52,589)	(18,539)	(40,620)	(49)	0	0	<b>(131,061)</b>	(11,339)
Depreciation in Year	(19,539)	(14,657)	(3,405)	(4,684)	0	0	0	<b>(42,285)</b>	(3,120)
Impairment in Year		(2,968)						<b>(2,968)</b>	
Written out to the Revaluation Reserve		18,557			0	0	0	<b>18,557</b>	
Written out to the (Surplus)/ Deficit on the Provision of Services	19,264	17,531	0	0	(247)	0	0	<b>36,548</b>	3,221
Derecognition-Disposals		2,436	7,917			0	0	<b>10,353</b>	
<b>At 31 March 2019</b>	<b>(19,539)</b>	<b>(31,690)</b>	<b>(14,027)</b>	<b>(45,304)</b>	<b>(296)</b>	<b>0</b>	<b>0</b>	<b>(110,856)</b>	<b>(11,238)</b>
<b>Net Book Value</b>									
<b>At 31 March 2019</b>	<b>653,463</b>	<b>494,305</b>	<b>33,006</b>	<b>206,259</b>	<b>3,601</b>	<b>3,234</b>	<b>29,026</b>	<b>1,422,894</b>	<b>65,658</b>
<b>At 31 March 2018</b>	<b>651,341</b>	<b>460,679</b>	<b>34,982</b>	<b>187,782</b>	<b>3,597</b>	<b>3,031</b>	<b>11,209</b>	<b>1,352,620</b>	<b>64,214</b>

### Capital Commitments

At 31 March 2020, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £59.5M. Similar commitments at 31 March 2019 were £42.8M. The major commitments are:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
HRA - Safe Wind and Weather Tight	22,369	0
HRA - Estate Regeneration & New Build	17,354	32,701
HRA - Well Maintained Communal Facilities	683	0
HRA - Supporting Communities	0	275
HRA - Improving Quality of Homes	0	1,506
HRA - Supporting Independent Living	0	1,599
HRA - Making Homes Safe	0	14,473
HRA - Making Homes Energy Efficient	0	1,904
Sholing Technical College Renovation	0	1,584
Regent Park Expansion	0	1,511
Southampton All Through School	0	1,378
Desktop Refresh	0	599
Warm Homes	0	465
Electric Vehicles	0	432
Enterprise Resource Platform	329	0
Springwell School Expansion	4	0
Other Various Minor Commitments	2,086	1,093
<b>Total</b>	<b>42,825</b>	<b>59,520</b>

### 13. Heritage Assets

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
<b>Cost or Valuation</b>			
01 April 2018	190,000	278	190,278
Additions			0
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
<b>31 March 2019</b>	<b>190,000</b>	<b>278</b>	<b>190,278</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2018		(29)	(29)
<b>31 March 2019</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2019</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>31 March 2018</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
<b>Cost or Valuation</b>			
01 April 2019	190,000	278	190,278
Additions			0
Adj for depreciation previously written out			0
<b>31 March 2020</b>	<b>190,000</b>	<b>278</b>	<b>190,278</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2019	0	(29)	(29)
Depreciation		0	0
<b>31 March 2020</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2020</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>31 March 2019</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 14. Investment Properties

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

<u>2018/19</u> £000		<u>2019/20</u> £000
(9,687)	Rental Income	(9,423)
1,661	Operating Expenditure	985
<b>(8,026)</b>	<b>Net (Income) / Expenditure</b>	<b>(8,438)</b>
(3,984)	Net (Gains) / Losses from fair value adjustments	15,187
<b><u>(12,010)</u></b>	<b>Total Net (Income) / Expenditure</b>	<b><u>6,749</u></b>

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>2018/19</u> £000	<u>2019/20</u> £000
<b>Balance at start of year</b>	<b>125,067</b>	<b>134,948</b>
Additions:		
Purchases	0	0
Subsequent Expenditure	7,078	0
Disposals	(984)	(1,366)
Net gains / (losses) from fair value adjustments	3,984	(15,187)
Transfers		
(to) / from Property, Plant and Equipment	(197)	(250)
<b>Balance at End of Year</b>	<b><u>134,948</u></b>	<b><u>118,145</u></b>

The year-end valuation of investment property was not significantly impacted by COVID-19, however there was a £15M year-on-year reduction in investment property valuations due to the Valuer making a slightly more prudent assessment of investment properties as at 31 March 2020. Assumptions about future rental income have not been adjusted for possible changes that may arise from the COVID-19 pandemic, as at 31 March 2020 there was little indication of any significant effects.

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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).

	<b><u>31 March</u></b>	<b><u>31 March</u></b>
	<b><u>2019</u></b>	<b><u>2020</u></b>
	<b>£000</b>	<b>£000</b>
Gross carrying amount	8,739	10,463
Derecognition of Assets fully amortised	(649)	(583)
	<b>8,090</b>	<b>9,880</b>
Accumulated amortisation	(2,537)	(3,169)
<b>Net Carrying Amount at Start of the Year</b>	<b>5,553</b>	<b>6,711</b>
Purchases	2,373	1,792
Amortisation for the period	(1,215)	(1,458)
Impairment in Year	0	0
<b>Net Carrying Amount at End of the Year</b>	<b>6,711</b>	<b>7,045</b>

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

As at 31 March 2020 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 17. Financial Instruments

#### a) Financial Instruments Classifications

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

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

#### Financial Liabilities

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

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

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

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

#### Financial Assets

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

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

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

#### b) Financial Instruments Balances

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<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>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(160,875)	(222,597)	(85,469)	(54,278)	(246,344)	(276,875)
- Accrued interest			(1,856)	(936)	(1,856)	(936)
<b>Total Borrowing</b>	<b>(160,875)</b>	<b>(222,597)</b>	<b>(87,325)</b>	<b>(55,214)</b>	<b>(248,200)</b>	<b>(277,811)</b>
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(3,367)	(4,352)	(3,367)	(4,352)
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>(3,367)</b>	<b>(4,352)</b>	<b>(3,367)</b>	<b>(4,352)</b>
<i>Liabilities at amortised cost:</i>						
- Finance leases						0
- PFI arrangements	(54,004)	(50,965)			(54,004)	(50,965)
- Other long-term creditors		(37)				(37)
<b>Total Long-term Creditors</b>	<b>(54,004)</b>	<b>(51,002)</b>	<b>0</b>	<b>0</b>	<b>(54,004)</b>	<b>(51,002)</b>
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(2,874)	(3,039)	(2,874)	(3,039)
- Trade payables			(30,103)	(26,717)	(30,103)	(26,717)
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>(32,977)</b>	<b>(29,756)</b>	<b>(32,977)</b>	<b>(29,756)</b>
<b>Total Financial Liabilities</b>	<b>(214,879)</b>	<b>(273,599)</b>	<b>(123,669)</b>	<b>(89,322)</b>	<b>(338,548)</b>	<b>(362,921)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2019	2020	2019	2020	2019	2020
<b>Financial Assets</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>At amortised cost</i>						
- Principal	3,060	3,033	13,612	0	16,672	3,033
- Accrued interest			152	141	152	141
<i>At fair value through profit &amp; loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	301	295	301	295
- Fair value adjustments	451	(531)			451	(531)
<b>Total Investments</b>	<b>30,511</b>	<b>29,502</b>	<b>14,065</b>	<b>436</b>	<b>44,576</b>	<b>29,938</b>
<i>At amortised cost</i>						
- Principal			2,124	2,367	2,124	2,367
- Accrued interest						0
<i>At fair value through profit &amp; loss</i>						
- Principal			24,022	28,850	24,022	28,850
- Accrued interest						0
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>26,146</b>	<b>31,217</b>	<b>26,146</b>	<b>31,217</b>
<i>At amortised costs</i>						
- Trade receivables			23,105	17,855	23,105	17,855
- Loans made for service purposes	28	3,733			28	3,733
<b>Included in Debtors</b>	<b>28</b>	<b>3,733</b>	<b>23,105</b>	<b>17,855</b>	<b>23,133</b>	<b>21,588</b>
<b>Total Financial Assets</b>	<b>30,539</b>	<b>33,235</b>	<b>63,316</b>	<b>49,508</b>	<b>93,855</b>	<b>82,743</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 2020/21.

### 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:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	2018/19	2019/20			Total £000
		Financial Liabilities	Financial Assets		
		Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	14,647	15,266			15,266
Gains/losses on derecognition	(64)	(76)			(76)
Reduction in fair value		0			0
Impairment Losses	2,600		2,969		2,969
Fees paid					
<b>Interest Payable and Similar Charges</b>	<b>17,183</b>	<b>15,190</b>	<b>2,969</b>	<b>0</b>	<b>18,159</b>
Interest income	(1,693)		(580)	(1,187)	(1,767)
Gains/losses on derecognition	(421)			982	982
Gains on de-recognition					
Increase in fair value					
<b>Interest and Investment Income</b>	<b>(2,114)</b>	<b>0</b>	<b>(580)</b>	<b>(205)</b>	<b>(785)</b>
Amounts recycled to the I&E Account after impairment	460		0		0
<b>Impact of revaluation in Other Comprehensive Income</b>					
<b>Net Gain / (Loss) for the Year</b>	<b>15,529</b>	<b>15,190</b>	<b>2,389</b>	<b>(205)</b>	<b>17,374</b>

### Financial Instruments – Fair Values

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

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2020.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2019</u>	<u>2019</u>			<u>2020</u>	<u>2020</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<b>Financial Liabilities held at amortised cost</b>					
(197,344)	(247,984)	Public Works Loans	2	(257,875)	(311,394)
(9,000)	(12,922)	LOBO Loans	2	(9,000)	(12,990)
(56,878)	(95,147)	PF/Finance Lease Liabilities	2	(54,004)	(84,158)
<b>(263,222)</b>	<b>(356,053)</b>			<b>(320,879)</b>	<b>(408,542)</b>
<b>Liabilities for which Fair Value is not disclosed*</b>					
		Other Long Term Creditors		(37)	
(41,856)		Short Term borrowing		(10,936)	
(3,367)		Bank Overdraft		(4,352)	
(30,103)		Trade Payables (Creditors)		(26,717)	
<b>(75,326)</b>				<b>(42,042)</b>	
		<b>Total Financial Liabilities</b>		<b>(362,921)</b>	
<b>(338,548)</b>					

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

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

Property funds have been moved from level 1 to level 2 of the hierarchy for 2019/20. This reflects that there is no longer an active market in these instruments. Fund managers suspended redemptions on 25 March 2020 reflecting market conditions for underlying properties, caused by the economic consequences of the coronavirus pandemic. The valuation is based on the Bid-Market value at the point redemptions were suspended.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2019</u>	<u>2019</u>			<u>2020</u>	<u>2020</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<b>Financial Assets held at Fair Value through P&amp;L</b>					
24,022	24,022	Money Market Funds	1	28,850	28,850
27,451	27,451	Property Funds	2	26,469	26,469
		Corporate, Covered and Government Bonds	1		
<b>51,473</b>	<b>51,473</b>			<b>55,319</b>	<b>55,319</b>
<b>Financial Assets held at Amortised Costs</b>					
7,627	8,197	Corporate, Covered and Government Bonds	1	3,013	3,489
<b>7,627</b>	<b>8,197</b>			<b>3,013</b>	<b>3,489</b>
<b>Assets for which Fair Value is not disclosed**</b>					
<i>Recorded on balance sheet as:</i>					
28		Long Term Debtors		3,733	
9,453		Short Term investments		436	
45		Shares in unlisted companies		20	
2,124		Cash and Cash Equivalents		2,367	
23,105		Trade Receivables (Debtors)		17,855	
<b>34,755</b>				<b>24,411</b>	
		<b>Total Financial Assets</b>		<b>82,743</b>	
<b>93,855</b>					

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### e) Financial Instruments – Risks

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

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

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

The main risks covered are:

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

### f) Credit Risk

#### Treasury Investments

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

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

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £61.2M (2018/19 £70.7M) 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 2020 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Full Council on 20 February 2019. The Treasury Strategy can be seen as Item 69 on the Council Meeting Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2019/20 to 2022/23](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2020 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing

## NOTES TO THE CORE FINANCIAL STATEMENTS

the investment:

Credit Rating	Long Term		Short Term	
	2019	2020	2019	2020
	£000	£000	£000	£000
AAA	3,015	3,013	4,764	295
AA+			0	0
AA			9,021	10
AA-			17,001	16,839
A+			7,000	12,000
A			2,124	2,368
A-				
Shares in unlisted companies	45	20		
Unrated pooled funds	27,451	26,469	301	141
<b>Total Investments</b>	<b>30,511</b>	<b>29,502</b>	<b>40,211</b>	<b>31,653</b>

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

The above analysis shows that all deposits outstanding as at 31 March 2020 met the Council's minimum credit rating criteria of A- or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2020 was £0.007M (2019: £0.004M) but as this falls below the Council's de-minimus level no offset was made.

### Trade Receivables

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

<b>Trade Debtors and Impairment Allowance</b>			
	<u>Outstanding</u>	<u>Outstanding</u>	
	<u>31 March 2019</u>	<u>31 March 2020</u>	
	£000	£000	
Trade Debtors	23,105	17,855	
Trade Debtors Impairment Allowance	(4,969)	(6,830)	

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

- Adult Social Care clients (£1.551M)
- Housing tenants (£4.980M)
- Other service recipients (£0.299M)

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

<u>2018/19</u> £000		<u>2019/20</u> £000
	<b><u>Trade debtors, analysed by age</u></b>	
11,671	Less than two months	5,518
3,842	Two to six months	5,565
3,214	Six months to one year	3,170
4,378	More than one year	3,602
<hr/> <b>23,105</b> <hr/>		<hr/> <b>17,855</b> <hr/>

### 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 2020 was as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> 31 March 2019	<u>% of Total</u> <u>Portfolio</u>	<b>Total Financial Liabilities</b>	<u>Outstanding</u> 31 March 2020	<u>% of Total</u> <u>Portfolio</u>
<b>£000</b>	<b>%</b>		<b>£000</b>	<b>%</b>
(197,344)	80	Public Works Loan Board	(257,875)	71
(49,000)	20	Other Financial Institutions	(19,000)	5
		Trade Payables	(26,717)	7
		Other Financial Institutions	(59,329)	16
<b>(246,344)</b>	<b>100</b>		<b>(362,921)</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>				
(76,469)	31	Less than 1 Year	(80,322)	22
(19,278)	8	Between 1 and 2 years	(12,196)	3
(2,750)	1	Between 2 and 5 years	(28,413)	8
0	0	Between 5 and 10 years	(50,084)	14
0	0	Between 10 and 15 years	(54,059)	16
(10,000)	4	Between 20 and 25 years	(5,000)	1
(5,000)	2	Between 25 and 30 years	(25,000)	7
(42,000)	17	Between 30 and 35 years	(36,700)	10
(50,600)	20	Between 35 and 40 years	(47,900)	13
(31,247)	13	Between 40 and 45 years	(14,247)	4
(9,000)	4	Uncertain Date**	(9,000)	2
<b>(246,344)</b>	<b>100</b>		<b>(362,921)</b>	<b>100</b>

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

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

<b>Loans and Other Long term Liabilities Outstanding (Nominal Value)</b>		
	<u>Outstanding</u> 31 March 2019	<u>Outstanding</u> 31 March 2020
<b>Source</b>	<b>£000</b>	<b>£000</b>
Public Works Loan Board	(197,344)	(257,875)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(40,000)	(10,000)
PFI Liabilities	(56,878)	(54,004)
Other long-term Creditors		(37)
<b>Total</b>	<b>(303,222)</b>	<b>(330,916)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### h) Market Risk

#### Interest Rate Risk

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

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

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2020 £308.4M (114%) (2018/19 £247.2M (106%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £38.7M (2018/19 £13.7M) net investments exposed to variable rates.

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

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

2018/19		2019/20	
£000		£000	
1,567	Increase in interest payable on variable rate borrowings	3,500	
(500)	Increase in interest payable on variable rate investments	(500)	
1,373	Decrease in fair value of investments held at FVPL (assumes 5%)	1,288	
<b>2,440</b>	<b>Impact on the Provision of Services (Surplus) / Deficit</b>	<b>4,288</b>	
539	Share of overall impact debited/credited to HRA	375	
<b>0</b>	<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>0</b>	
(42,590)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost ( <i>no impact on Comprehensive Income and Expenditure</i> )	(62,269)	

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk was limited by the Council's maximum exposure to property investments. As at 31 March 2020 the Council had £27M (2018/19 £27M) invested in the Local Authority Property Fund which was valued with a capital loss of £0.982M (2018/19 £0.451M gain). A 5% (2018/19 5%) fall in commercial property prices would result in a £1.29M (2018/19 £1.37M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

## 18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2020.

<u>31 March</u> <u>2019</u> £000		<u>31 March</u> <u>2020</u> £000
	Housing Improvement Loans	3,721
28	Other	12
<u>28</u>		<u>3,733</u>

A correction was made to the accounts in 2019/20 to recognise capitalised Housing Improvement Loans that are repayable to the Council, which were previously treated as Revenue Expenditure Funded by Capital under Statute and expensed when incurred.

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2020.

<u>31 March</u> <u>2019</u> £000	<u>Debtors</u>	<u>31 March</u> <u>2020</u> £000
5,574	Central Government	13,564
2,111	Other Local Authorities	4,859
163	NHS Bodies	1,881
55,798	Other Entities and Individuals	56,936
(25,831)	Debtors Impairment Allowance	(29,650)
<u>37,815</u>	<b>Total Debtors</b>	<u>47,590</u>

## 19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by £4.4M (2018/19 £3.4M), the Council's actual bank account balance at the Bank was a credit balance of £0.20M (2018/19



## NOTES TO THE CORE FINANCIAL STATEMENTS

£0.42M) at 31 March 2020. The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

<u>31 March</u> <u>2019</u> <u>£000</u>		<u>31 March</u> <u>2020</u> <u>£000</u>
(3,367)	Bank Accounts	(4,352)
(3,367)		(4,352)
24,022	Money Market Funds	28,850
2,040	Call Accounts	2,265
84	Petty Cash	102
26,146		31,217
<u>22,779</u>		<u>26,865</u>

## 20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2020.

<u>31 March</u> <u>2019</u> <u>£000</u>	<u>Creditors</u>	<u>31 March</u> <u>2020</u> <u>£000</u>
12,510	Central Government	21,599
5,694	Other Local Authorities	3,198
3,135	NHS Bodies	920
58,036	Other Entities and Individuals	47,140
<u>79,375</u>	<b>Total Creditors</b>	<u>72,857</u>

## 21. Provisions

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

	<u>Balance at 31</u> <u>March 2019</u> <u>£000</u>	<u>Additional Provisions</u> <u>Made in Year</u> <u>£000</u>	<u>Amounts Used</u> <u>in Year</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2020</u> <u>£000</u>
<u>General Fund</u>				
NDR Appeals Provision	16,892	3,567	(7,417)	13,042
General Insurance Funds	2,004	278	(126)	2,156
Other Provisions	561	91	(561)	91
<b>Total</b>	<u>19,457</u>	<u>3,936</u>	<u>(8,104)</u>	<u>15,289</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Provisions are estimated to be utilised as follows:

	<b>Short Term</b>			<b>Total Long Term</b>	<b>Balance at 31 March 2020</b>
	<b>Due within 1 Year</b>	<b>Due between 2 to 5 years</b>	<b>Over 5 years</b>		
	<b>£000</b>	<b>£000</b>	<b>£000</b>		
<b>General Fund</b>					
NDR Appeals Provision	7,912	5,130	0	5,130	13,042
General Insurance Funds	770	1,386	0	1,386	2,156
Other Provisions	91	0	0	0	91
<b>Total</b>	<b>8,773</b>	<b>6,516</b>	<b>0</b>	<b>6,516</b>	<b>15,289</b>

### a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council's share of the provision (2019/20 74%, 2018/19 99%) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2020.

The estimate is based on a percentage of the gross rate yield after reliefs, based on national assumptions about refund levels, together with a review of the Valuation Office Agency (VOA) list of appeals outstanding and projected appeals.

The amount used in year includes the effect of having a lower share of the provision balance at 31 March 2020 compared to the previous year, with a 75% Business Rates Retention Pilot being in operation in 2019/20 compared to a 100% Business Rates Retention Pilot in 2018/19.

### b) Insurance Provisions

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

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2020 amounted to £2.2M (2018/19 £2.0M). Additionally, a further £2.4M (2018/19 £2.5M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts.

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

### c) Other Provisions

All other provisions are individually immaterial.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 22. Unusable Reserves

#### a) Revaluation Reserve

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

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

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

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
(333,578)	Balance Brought Forward	(382,661)
(57,729)	Upward revaluations of assets	(77,085)
1,784	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	41,991
(55,945)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(35,094)
4,040	Difference between fair value depreciation and historical cost depreciation	5,867
2,822	Accumulated Revaluations on Disposals	569
<b>(382,661)</b>	<b>Balance Carried Forward</b>	<b>(411,319)</b>

#### b) Capital Adjustment Account (CAA)

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2018/19</u> £000		<u>2019/20</u> £000
(860,007)	Balance Brought Forward	(875,433)
	<b>Capital Financing</b>	
(10,879)	Usable Capital Receipts	(8,205)
(25,792)	Capital Grants & Contributions	(36,192)
(19,539)	HRA Financing from the Major Repairs Reserve	(19,597)
(5,421)	Revenue Contributions	(11,834)
	<b>Other Movements</b>	
5,206	Revenue Expenditure Funded from Capital under Statute	4,023
	Net gains/losses from fair value adjustments on Investment	
(3,984)	Properties	15,187
1,215	Amortisation of Intangibles	1,458
45,202	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	76,010
18,351	Disposals	9,217
(4,040)	Historic Cost Depreciation Adjustment	(5,867)
(2,822)	Accumulated Revaluations on Disposals	(569)
(12,923)	Provision for the Financing of Capital Investment	(9,303)
0	Other adjustments	25
<b><u>(875,433)</u></b>	<b>Balance Carried Forward</b>	<b><u>(861,080)</u></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>2018/19</u> £000		<u>2019/20</u> £000
464,290	Balance Brought Forward	459,640
(38,270)	Remeasurement of the net defined benefit liability/(asset)	8,970
63,520	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	55,716
(29,900)	Employer's pension contributions and direct payments to pensioners payable in the year.	(32,180)
<b><u>459,640</u></b>	<b>Balance Carried Forward</b>	<b><u>492,146</u></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>2018/19</u>		<u>2019/20</u>
<u>£000</u>		<u>£000</u>
(3,786)	Balance Brought Forward	(5,516)
792	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	3,490
(2,522)	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	3,185
<u>(5,516)</u>	<b>Balance Carried Forward</b>	<u>1,159</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>2018/19</u>		<u>2019/20</u>
<u>£000</u>		<u>£000</u>
1,999	Balance Brought Forward	1,730
(1,999)	Settlement or cancellation of accrual made at the end of the preceding year	(1,730)
1,730	Amounts accrued at the end of the current year	1,949
<u>1,730</u>	<b>Balance Carried Forward</b>	<u>1,949</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>2018/19</u>		<u>2019/20</u>
£000		£000
<b>(14,575)</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(31,850)</b>
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
42,285	Depreciation	43,647
2,917	Movement on assets charged to revenue	32,363
1,215	Amortisation	1,458
110	Adjustments for effective interest rates	0
	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	982
(420)	Increase/(Decrease) in Interest Creditors	(920)
(79)	Increase/(Decrease) in Creditors	(10,674)
(2,706)	Increase/(Decrease) in Interest and Dividend Debtors	16
125	(Increase)/Decrease in Debtors	(8,659)
10,210	(Increase)/Decrease in Inventories	(18)
(28)	Pension Liability	23,536
33,620	Contributions to/(from) Provisions	(4,168)
6,877	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	9,217
18,351	Movement in Investment Property Values	15,187
(3,984)	Other Items	(3,696)
(450)		98,271
<b>108,043</b>	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(35,651)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(57,595)
(9,471)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(12,117)
(8)	Deferred capital receipt - transfer to the Capital Receipts Reserve upon receipt	0
(136)	Allowable deduction arising from disposal	(160)
<b>(45,266)</b>		<b>(69,872)</b>
<b>48,202</b>	<b>Net Cash Flows from Operating Activities</b>	<b>(3,451)</b>

#### b) Operating Activities – Interest

<u>2018/19</u>		<u>2019/20</u>
£000		£000
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
2,129	Interest Received	801
(14,544)	Interest Paid	(16,085)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Cash Flows from Investing Activities

<u>2018/19</u>		<u>2019/20</u>
£000		£000
	<b>Cash Flows from Investing Activities</b>	
(83,954)	Property, Plant and Equipment Purchased	(88,398)
(45,110)	Purchase of short term investments	(73,840)
10,660	Proceeds from the sale of property plant and equipment, investment property and intangible assets	12,312
49,466	Proceeds from short-term and long-term investments	87,440
37,704	Other Receipts from Investing Activities - Capital Grants & Contributions Received	40,133
<u>(31,234)</u>	<b>Total Cash Flows from Investing Activities</b>	<u>(22,353)</u>

### d) Cash Flows from Financing Activities

<u>2018/19</u>		<u>2019/20</u>
£000		£000
	<b>Cash Flows from Financing Activities</b>	
40,000	Cash receipts of short and long term borrowing	124,000
(12,571)	Billing Authorities - Council Tax and NNDR adjustments	2,597
(44,832)	Repayment of Short-Term and Long-Term Borrowing	(93,833)
(1,962)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,874)
<u>(19,365)</u>	<b>Total Cash Flows from Financing Activities</b>	<u>29,890</u>

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

<u>2018/19</u>		<u>2019/20</u>
£000		£000
	<b>Makeup of Cash and Cash Equivalents</b>	
84	Cash and Bank Balances	102
26,062	Cash Investments - regarded as cash equivalents	31,115
(3,367)	Bank Overdraft	(4,352)
<u>22,779</u>		<u>26,865</u>

### f) Changes in liabilities

	<u>1 April 2019</u>	<u>Cash Flows</u>	<u>Non-Cash</u>	<u>31 March</u>
	£000	£000	Movements	2020
			£000	£000
Long-term borrowing	160,875	97,000	(35,278)	222,597
Short-term borrowing	87,325	(68,325)	36,214	55,214
Other deferred liabilities	14,190	(364)		13,826
Finance leases and PFI contracts	56,878	(2,874)		54,004
<b>Total</b>	<b>319,268</b>	<b>25,437</b>	<b>936</b>	<b>345,641</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. Agency Services

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

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

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

Cash collected from NDR taxpayers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (74%), Government (25%) and Hampshire Fire and Rescue Authority (1%) (2018/19 Southampton City Council 99% and Hampshire Fire and Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from NDR Taxpayers.

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

### 25. Members' Allowances

The total of members' allowances paid in was £0.763M (2018/19 was £0.735M) as detailed in the table below.

	<u>31 March</u> <u>2019</u> <u>£000</u>	<u>31 March</u> <u>2020</u> <u>£000</u>
Salaries	590	607
Allowances	139	152
Expenses	6	4
Total	<u>735</u>	<u>763</u>

### 26. Officers' Remuneration

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

#### a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2018/19.



## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Band £</u>		<u>Number of Employees</u>					
		<u>2018/19</u>			<u>2019/20</u>		
		<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 -	54,999	45	45	90	61	74	135
55,000 -	59,999	17	31	48	36	29	65
60,000 -	64,999	20	17	37	23	22	45
65,000 -	69,999	18	5	23	20	8	28
70,000 -	74,999	9	4	13	10	7	17
75,000 -	79,999	0	3	3	7	1	8
80,000 -	84,999	5	1	6	3	4	7
85,000 -	89,999	1	5	6	1	1	2
90,000 -	94,999	1	2	3	0	1	1
95,000 -	99,999	1	3	4	2	4	6
100,000 -	104,999	1	0	1	1	0	1
105,000 -	109,999	0	2	2	2	1	3
110,000 -	114,999	1	1	2	0	1	1
115,000 -	119,999	0	1	1	1	2	3
120,000 -	124,999	0	0	0	1	1	2
125,000 -	129,999	0	1	1	1	1	2
130,000 -	134,999	0	0	0	0	0	0
135,000 -	139,999	0	0	0	0	0	0
140,000 -	144,999	0	0	0	0	2	2
145,000 -	149,999	0	1	1	0	0	0
150,000 -	154,999	0	0	0	0	0	0
155,000 -	159,999	0	0	0	0	0	0
160,000 -	164,999	0	0	0	0	0	0
165,000 -	169,999	0	0	0	0	0	0
170,000 -	174,999	0	0	0	0	1	1
		<b>119</b>	<b>122</b>	<b>241</b>	<b>169</b>	<b>160</b>	<b>329</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20

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

**Note 1**

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

**Note 2**

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

**Note 3**

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

**Note 4**

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

**Note 5**

There were no bonuses paid.

**Note 6**

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

2018/19

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

**Note 1**

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

**Note 2**

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

**Note 3**

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

**Note 4**

There were no bonuses paid.

**Note 5**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £3.2M (2018/19 £1.0M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

<u>Exit Package Cost Band</u> <u>(including special payments)</u>	<u>Number of compulsory</u>		<u>Number of Other</u>		<u>Total Number of</u>		<u>Total Cost of Exit</u>	
	<u>Redundancies</u>		<u>Departures agreed</u>		<u>packages by Cost Band</u>		<u>Packages in each Band</u>	
	<u>2018/19</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2019/20</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
£0-£20,000	10	11	28	43	38	54	327	457
£20,001-£40,000	0	2	5	17	5	19	138	541
£40,001-£60,000	0	1	2	9	2	10	88	498
£60,001-£80,000	0	0	2	5	2	5	131	346
£80,001-£100,000	1	0	0	2	1	2	83	187
£100,001-£150,000	1	0	1	3	2	3	215	375
£150,000+	0	0	0	4	0	4	0	834
<b>Total</b>	<b>12</b>	<b>14</b>	<b>38</b>	<b>83</b>	<b>50</b>	<b>97</b>	<b>982</b>	<b>3,238</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>2018/19</u>	<u>2019/20</u>
<u>£000</u>	<u>£000</u>
110 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	110
0 Fees payable to Ernst & Young in respect of grant claims and returns for the year	4
12 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	8
11 Fees payable to KPMG in respect of grant claims and returns for the year	12
<b>133</b>	<b>134</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:

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Details of the Deployment of DSG Receivable for 2019/20 are as follows:

	<u>Central</u> <u>Expenditure</u> £000	<u>Individual</u> <u>Schools</u> <u>Budget</u> £000	<u>Total</u> £000
Final DSG for 2019/20 before Academy recoupment			186,548
Academy figure recouped for 2019/20			(60,029)
<b>Total DSG after Academy Recoupment for 2019/20</b>			<b>126,519</b>
Plus: Brought forward from 2018/19			<b>(364)</b>
Agreed initial budgeted distribution in 2019/20	<b>9,766</b>	<b>116,389</b>	<b>126,155</b>
In year adjustments		(242)	(242)
<b>Final Budgeted Distribution for 2019/20</b>	<b>9,766</b>	<b>116,147</b>	<b>125,913</b>
Less: Actual central expenditure	(17,196)		(17,196)
Less: Actual ISB deployed to schools		(116,137)	(116,137)
<b>Carry Forward to 2020/21</b>	<b>(7,430)</b>	<b>10</b>	<b>(7,420)</b>

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN). The DSG overspend is planned to be repaid over the next 3 years in line with DfE guidance.

## 29. Related Parties

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

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

During the year major transactions with related parties arose with; Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 (Pension Schemes accounted for as a Defined Contribution) and Note 34 (Defined Benefit Pension Schemes); Southampton Clinical Commissioning Group as disclosed in Note 39 and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 (Capital and Revenue Grants & Contributions, Receipts in Advance). The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis.

For the elected members and senior officers it also includes members of their close family, their households and any company, trust etc. in which they have a controlling interest. Elected members and senior officers

## NOTES TO THE CORE FINANCIAL STATEMENTS

were requested to disclose any related party transactions which are as follows:

- One councillor is a trustee of Yellow Door which received service payments of £0.397M from the Council. The councillor was not involved in the award of the contract.

### 30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b><u>2018/19</u></b>	<b><u>2019/20</u></b>
	<b>£000</b>	<b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>479,950</b>	<b>496,753</b>
<b><i>Capital Investment</i></b>		
Intangible assets	2,373	1,792
Property Plant & Equipment	76,700	87,552
Revenue Expenditure Funded from Capital under Statute	5,206	4,023
Heritage Assets	0	0
Investment Properties	7,078	0
Financial Instruments (Housing Improvement Loans)	0	3,721
<b><i>Sources of Finance</i></b>		
Capital Receipts	(10,879)	(8,205)
Government grants & other contributions	(25,792)	(36,192)
Use of Major Repairs Reserve	(19,539)	(19,597)
Direct Revenue Financing	(5,421)	(11,834)
Donated Asset	0	0
MRP	(12,923)	(9,303)
<b>Closing Capital Financing Requirement</b>	<b><u>496,753</u></b>	<b><u>508,710</u></b>
Increase in underlying need to borrow (unsupported by Government financial assistance)	29,726	21,260
MRP	(12,923)	(9,303)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b><u>16,803</u></b>	<b><u>11,957</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 31. Leases

#### a) Council as a Lessor

##### Operating Leases

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

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

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

	<b><u>31 March</u></b>	<b><u>31 March</u></b>
	<b>2019</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	7,407	6,620
Later than one year and not later than five years	20,850	20,654
Later than five years	523,492	546,004
	<b><u>551,749</u></b>	<b><u>573,278</u></b>
Contingent Rents	<b><u>945</u></b>	<b><u>1,352</u></b>

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### **Hampshire Waste Contract**

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

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

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

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

### **PFI Street Lighting**

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

### **b) Off Balance Sheet**

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

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

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows. An adjustment has been made to the opening balances to reflect amendments to valuations made between the draft and final 2018/19 accounts, for which the PFI and Similar Contracts note was not updated.

	<u>PFI - Schools</u>	<u>Hampshire Waste</u> <u>Contract</u>	<u>PFI - Street</u> <u>Lighting</u>	<u>Total</u>
	£000	£000	£000	£000
<b>Cost or Valuation</b>				
At 1 April 2019	38,768	12,309	25,819	76,896
Adjustment to Opening Balance	7,638			7,638
	46,406	12,309	25,819	84,534
Additions	15			15
Disposals				0
Revaluations	(1,148)			(1,148)
Impairments				0
<b>At 31 March 2020</b>	<b>45,273</b>	<b>12,309</b>	<b>25,819</b>	<b>83,401</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2019	(5,609)	(887)	(4,742)	(11,238)
Adjustment to Opening Balance	122			122
	(5,487)	(887)	(4,742)	(11,116)
Depreciation Charge for the Year	(1,906)	(887)	(860)	(3,653)
Disposals				0
Revaluations	5,487			5,487
Impairments				0
<b>At 31 March 2020</b>	<b>(1,906)</b>	<b>(1,774)</b>	<b>(5,602)</b>	<b>(9,282)</b>
<b>Balance Sheet amount at 31 March 2020</b>	<b>43,367</b>	<b>10,535</b>	<b>20,217</b>	<b>74,119</b>
<b>Balance Sheet amount at 31 March 2019</b>	<b>33,159</b>	<b>11,422</b>	<b>21,077</b>	<b>65,658</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>Contract</u>	<u>PFI - Street</u> <u>Lighting</u>	<u>Total</u>
	£000	£000	£000	£000
Balance 1 April 2019	29,941	5,849	21,088	56,878
New Schemes in 2019/20	0	0	0	0
Repayments	(1,584)	(925)	(365)	(2,874)
<b>Balance 31 March 2020</b>	<b>28,357</b>	<b>4,924</b>	<b>20,723</b>	<b>54,004</b>
<b>Due within 1 Year</b>				
Balance 1 April 2019	1,584	925	365	2,874
Repayments	(1,584)	(925)	(365)	(2,874)
Due within 1 Year	1,603	1,012	424	3,039
<b>Balance 31 March 2020</b>	<b>1,603</b>	<b>1,012</b>	<b>424</b>	<b>3,039</b>
<b>Long Term Creditor Balance 31 March 2020</b>	<b>26,754</b>	<b>3,912</b>	<b>20,299</b>	<b>50,965</b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	<u>Contingent</u>	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	
	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>Rents</u>	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>£000</u>
within 1 year	1,603	2,410	1,733	1,185	1,012	887	6,068	424	2,471	1,272	19,065
within 2 to 5 years	7,417	8,237	8,512	5,103	3,874	1,653	27,721	2,568	9,251	5,441	79,777
within 6 to 10 years	13,944	6,095	10,599	10,120	38	10	2,120	6,102	9,177	7,662	65,867
within 11 to 15 years	5,393	597	2,968	3,542				11,629	4,186	8,747	37,062
within 16 to 20 years											0
<b>Balance 31 March 2020</b>	<b>28,357</b>	<b>17,339</b>	<b>23,812</b>	<b>19,950</b>	<b>4,924</b>	<b>2,550</b>	<b>35,909</b>	<b>20,723</b>	<b>25,085</b>	<b>23,122</b>	<b>201,771</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>Northlands</u>	<u>Oak Lodge</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
within 1 year	2,424	1,618	4,042
within 2 to 5 years	9,694	6,470	16,164
within 6 to 10 years	8,895	8,088	16,983
within 11 to 15 years		7,845	7,845
within 16 to 20 years			0
<b>Balance 31 March 2020</b>	<b>21,013</b>	<b>24,021</b>	<b>45,034</b>

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

	<u>Liability</u>	<u>Interest</u>	<u>Service</u>	<u>Contingent</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>Charges</u>	<u>Rents</u>	<u>£000</u>
PFI Schools	1,584	2,545	1,703	981	6,813
Hampshire Waste	925	1,053	5,855		7,833
PFI Street Lighting	365	2,516	1,240		4,121
BUPA Care Homes					
Northlands			2,357		2,357
Oak Lodge			1,519		1,519
<b>Totals</b>	<b>2,874</b>	<b>6,114</b>	<b>12,674</b>	<b>981</b>	<b>22,643</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

In 2019/20 the Council paid £8.3M to Teachers' Pensions in respect of teachers' retirement benefits, representing 20.4% of pensionable pay (2018/19 £6.8M and 16.5%). The contributions due to be paid in the next financial year are estimated to be £9.9M.

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

### 34. Defined Benefit Pension Schemes

#### a) Participation in Pension Schemes

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

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

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

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

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 18 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

the amounts required by statute as described in the accounting policies note.

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

In 2019/20 the Council paid an employer's contribution of £32.2M (2018/19 £29.9M) into Hampshire County Council's Pension Fund. The employer's rate for 2019/20 was 16.1% (2018/19 15.1%) 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% (2018/19 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 2021 is £21.39M. The weighted average duration of the defined benefit obligation for the scheme members is 20.8 years.

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
<b>Service cost comprising:</b>						
Current Service Cost	36,430	43,664	0	0	36,430	43,664
Past Service Cost	15,400	1,404	0	0	15,400	1,404
(Gain)/loss from settlements		0				
Financing and Investment Income and Expenditure						
Expenditure						
Net interest expense	10,760	9,836	930	812	11,690	10,648
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>62,590</b>	<b>54,904</b>	<b>930</b>	<b>812</b>	<b>63,520</b>	<b>55,716</b>
<b>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>						
<b>Remeasurement of the net defined benefit liability comprising:</b>						
Return on plan assets (excluding the amount included in the net interest expense)	(57,020)	49,640	0	0	(57,020)	49,640
Actuarial gains and losses arising on changes in demographic assumptions	(52,570)	(32,897)	(1,600)	(716)	(54,170)	(33,613)
Actuarial gains and losses arising on changes in financial assumptions	69,900	(35,476)	870	(358)	70,770	(35,834)
Other experience and actuarial adjustments	2,040	27,827	110	950	2,150	28,777
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(37,650)</b>	<b>9,094</b>	<b>(620)</b>	<b>(124)</b>	<b>(38,270)</b>	<b>8,970</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(62,590)	(54,904)	(930)	(812)	(63,520)	(55,716)
Actual amount charged against the General Fund Balance for pensions in the year						
<b>Employers Contributions payable to scheme</b>	<b>27,590</b>	<b>29,860</b>			<b>27,590</b>	<b>29,860</b>
<b>Retirement benefits payable to pensioners</b>			<b>2,310</b>	<b>2,320</b>	<b>2,310</b>	<b>2,320</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2020 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 £492.1M (2018/19 £459.6M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Present value of the defined benefit obligation	1,299,630	1,309,231	34,970	33,338	1,334,600	1,342,569
Fair value of plan assets	(874,960)	(850,423)			(874,960)	(850,423)
Sub-total	424,670	458,808	34,970	33,338	459,640	492,146
Other movements in the liability (asset)	0	0	0	0	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>424,670</b>	<b>458,808</b>	<b>34,970</b>	<b>33,338</b>	<b>459,640</b>	<b>492,146</b>

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

The latest actuarial valuation of liabilities took place at 31 March 2019. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2020.

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Opening balance at 1 April	1,220,730	1,299,630	36,970	34,970	1,257,700	1,334,600
Current service cost	36,430	43,664	0	0	36,430	43,664
Interest cost	31,440	30,887	930	812	32,370	31,699
Contributions from scheme participants	7,020	7,407	0	0	7,020	7,407
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	(52,570)	(32,897)	(1,600)	(716)	(54,170)	(33,613)
Actuarial gains/losses arising from changes in financial assumptions	69,900	(35,476)	870	(358)	70,770	(35,834)
Other	2,040	27,827	110	950	2,150	28,777
Past service cost	15,400	1,404	0	0	15,400	1,404
Losses/(gains) on curtailment (where relevant)	0	0	0	0	0	0
Liabilities assumed on entity combinations	0	0	0	0	0	0
Benefits paid	(30,760)	(33,215)	(2,310)	(2,320)	(33,070)	(35,535)
Liabilities extinguished on settlements (where relevant)			0	0	0	0
<b>Closing balance at 31 March</b>	<b>1,299,630</b>	<b>1,309,231</b>	<b>34,970</b>	<b>33,338</b>	<b>1,334,600</b>	<b>1,342,569</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
Opening fair value of scheme assets	793,410	874,960	0	0	793,410	874,960
Interest income	20,680	21,051	0	0	20,680	21,051
Remeasurement gain/(loss)	57,020	(49,640)	0	0	57,020	(49,640)
The return on plan assets, excluding the amount included in the net interest expense			0	0	0	0
Other			0	0	0	0
The effect of changes in foreign exchange rates			0	0	0	0
Contributions from employer	27,590	29,860	2,310	2,320	29,900	32,180
Contributions from employees into the scheme	7,020	7,407	0	0	7,020	7,407
Benefits paid	(30,760)	(33,215)	(2,310)	(2,320)	(33,070)	(35,535)
Other	0	0	0	0	0	0
<b>Closing fair value of scheme assets</b>	<b>874,960</b>	<b>850,423</b>	<b>0</b>	<b>0</b>	<b>874,960</b>	<b>850,423</b>

### e) Basis for Estimating Assets and Liabilities

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

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.3	23.0	23.3	23.0
Women	26.1	25.5	26.1	25.5
Longevity at 65 for future pensioners:				
Men	24.9	24.7	-	-
Women	27.8	27.2	-	-
RPI inflation	3.3%		3.3%	
CPI inflation	2.2%	2.0%	2.2%	2.0%
Rate of increase in salaries	3.7%	3.0%	-	-
Rate of increase in pensions	2.2%	2.0%	2.2%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%

### 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

	<u>2018/19</u>	<u>2018/19</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2019/20</u>	<u>2019/20</u>
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	54.00	6.40	60.40	44.10	8.60	52.70
Property	0.70	6.90	7.60	0.80	6.50	7.30
Government Bonds	22.60	0.10	22.70	21.80	-	21.80
Corporate Bonds	1.10	4.10	5.20	-	-	-
Cash	2.30	-	2.30	2.00	-	2.00
Other	0.10	1.70	1.80	14.10	2.10	16.20
<b>Total assets</b>	<b>80.80</b>	<b>19.20</b>	<b>100.00</b>	<b>82.80</b>	<b>17.20</b>	<b>100.00</b>

### g) Sensitivity analysis

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	41,269	(40,932)
Rate of increase in salaries (increase or decrease by 1%)	2,219	(2,198)
Rate of increase in pensions (increase or decrease by 1%)	25,141	(24,589)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(26,937)	27,503

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

## 35. Contingent Liabilities/ Assets

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

### Municipal Mutual Insurance – Scheme of Arrangement

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

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

An earmarked Insurance reserve, with a balance of £0.350M (2018/19 £0.350M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review.

As at 31 March 2020, the Council's outstanding potential liability under the SoA stood at £1.390M (2018/19

## NOTES TO THE CORE FINANCIAL STATEMENTS

£1.384M), less the £0.347M payment already made under the scheme.

### 36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2019/20 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationship:

#### PSP Southampton LLP

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

The aims and aspirations of the Partnership are as follows:

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

A review of PSP indicates a joint venture, which would require the arrangement to be accounted as for an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2020 was £0.453M (2018/19 £0.432M).

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

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

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

<u>2018/19</u>		<u>2019/20</u>
<b>£000</b>		<b>£000</b>
(27,200)	Balance Brought Forward	(29,245)
(17,221)	Amounts Received in Year	(7,106)
15,176	Amounts Applied to Finance Capital in year	23,933
<u><b>(29,245)</b></u>	<b>Balance Carried forward</b>	<u><b>(12,418)</b></u>

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2018/19</u> £000		<u>2019/20</u> £000	£000
	<b>Grants</b>		
	Department for Education		
0	Framework Academies	(5)	
(5,452)	Basic Need Grant	(14,043)	
(5,259)	School Condition Allocation	(4,271)	
(463)	Schools Devolved Formula Grant	(1,416)	
0	Special Provision Allocation	(1,263)	
(769)	Capital Maintenance Grant	(3,605)	
(121)	Other	(2,389)	
<u>(12,064)</u>			<u>(26,992)</u>
(1,477)	Ministry of Housing, Communities and Local Government		(4,515)
(1,645)	Department for Environment, Food and Rural Affairs		0
0	Heritage Lottery Fund		(21)
(10,094)	Department for Transport		(18,360)
0	Department for Culture, Media and Sport		(78)
(847)	Arts Council		0
(45)	Other		(221)
<u>(26,172)</u>			<u>(50,187)</u>
<b>(9,478)</b>	<b>Contributions</b>		<b>(7,407)</b>
<u><b>(35,650)</b></u>	<b>Total</b>		<u><b>(57,594)</b></u>
<b>(33,189)</b>	<b>Credited to Capital Grants and Contributions CIES</b>		<b>(54,495)</b>
<b>(2,461)</b>	<b>Credited to Cost of Services</b>		<b>(3,099)</b>
<u><b>(35,650)</b></u>	<b>Total</b>		<u><b>(57,594)</b></u>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2018/19</u> £000		<u>2019/20</u> £000
	<b>General Government Grants</b>	
28,476	Business Rates Retention Tariff	10,123
	Covid-19 Emergency Funding Grant	(7,400)
(7,620)	Section 31 Grants	(7,335)
(5,265)	MHCLG - New Homes Bonus Scheme	(4,768)
	Social Care Support Grant	(1,895)
(1,264)	Housing Benefit and Council Tax Admin Grants	(1,171)
(1,828)	Other Grants	(1,361)
<b>12,499</b>		<b>(13,807)</b>
	<b>Credited to Services</b>	
(126,601)	Dedicated Schools Grant (DSG)	(126,277)
(79,075)	Housing Benefit Grant	(70,672)
(16,898)	Public Health Grant	(16,520)
(6,446)	Additional and Improved Better Care Fund	(9,281)
(8,437)	Pupil Premium	(9,011)
(5,859)	Private Finance Initiative (PFI)	(5,859)
	Teachers Pay and Pension Grants	(2,978)
(1,957)	Universal Infant Free School Meals	(1,544)
(1,109)	Adult Social Care Winter Pressures Grant	(1,109)
(8,657)	Other Grants	(10,356)
<b>(255,039)</b>		<b>(253,607)</b>

As part of the 75% Business Rates Retention pilot in 2019/20 (2018/19 100% Business Rates Retention pilot), the Council received no Revenue Support Grant and incurred a tariff charge of £10.1M (2018/19 £28.5M) to offset the additional business rates income retained.

### 38. Deferred Liabilities

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

<u>31 March</u> 2019 £000		<u>31 March</u> 2020 £000
14,553	Balance Brought Forward	14,190
(363)	Principal written down	(364)
<b>14,190</b>		<b>13,826</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 39. Pooled Budgets

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

#### Better Care Southampton

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

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

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

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

<u>2018/19</u>					<u>2019/20</u>			
<u>LBHU</u>		<u>R&amp;R</u>			<u>LBHU</u>		<u>R&amp;R</u>	
£000	%	£000	%		£000	%	£000	%
0		0		<b>Better Care Fund</b>				
(1,274)	49%	(5,200)	31%	<b>Funding - Contributions / Grants</b>				
(1,326)	51%	(11,828)	69%	Brought Forward	0		0	
				Southampton City Council	(1,274)	49%	(5,159)	31%
<b>(2,600)</b>		<b>(17,028)</b>		Southampton Clinical Commissioning Group	(1,326)	51%	(11,749)	69%
2,600		17,028			<b>(2,600)</b>		<b>(16,908)</b>	
<b>0</b>		<b>0</b>		<b>Expenditure</b>	2,600		16,908	
				<b>Carried Forward</b>	<b>0</b>		<b>0</b>	

### 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	£000	£000	£000	
Aldridge Bequest	(8)	0	(232)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(1)	3	(169)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	(46)	Works of art
LC Smith Bequest	0	0	(35)	Merchants Navy's Memorial maintenance help in Holyrood Church
<b>Minor Trust Funds consisting of:</b>				
Ida Bany Bequest	0	0	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(4)	Bitterne Park School special annual prizes
<b>Trust Funds Total</b>	<b>(9)</b>	<b>3</b>	<b>(503)</b>	
Wessex Slaughterhouse Board	0	0	(93)	Pensions to former employees
<b>Total</b>	<b>(9)</b>	<b>3</b>	<b>(596)</b>	

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Housing Revenue Account

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

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

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

### HRA Income and Expenditure Statement

<u>2018/19</u>		<u>2019/20</u>
£000	<u>Expenditure</u>	Notes £000
14,569	Repairs and maintenance	13,853
25,599	Supervision and management	25,260
4,324	Rents, rates, taxes and other charges	4,774
20,864	Depreciation, impairment and revaluation (gains) of non-current assets	37,980
80	Debt management costs	74
890	Movement in the allowance for bad debts	1,312
		1
<b>66,326</b>	<b>Total Expenditure</b>	<b>83,253</b>
	<b>Income</b>	
(70,307)	Dwellings rent	(69,497)
(1,257)	Non-dwelling rents	(1,250)
(6,393)	Charges for services & facilities	(7,392)
(873)	Contributions towards expenditure	(883)
<b>(78,830)</b>	<b>Total Income</b>	<b>(79,022)</b>
	<b>Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	
<b>(12,504)</b>	<b>Comprehensive Income and Expenditure Statement</b>	<b>4,231</b>
518	HRA services' share of Corporate and Democratic Core	518
<b>(11,986)</b>	<b>Net Expenditure/ (Income) for HRA Services</b>	<b>4,749</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(2,823)	(Gain) or loss on the sale of HRA non-current assets	(3,830)
96	Capital Receipts not matched by Disposal of Assets	(28)
(68)	Investment Property Revaluation Movements	(456)
5,339	Interest payable and similar charges	5,189
(19)	Interest and investment income	(22)
1,266	Net interest on the net defined benefit liability	402
(3,058)	Capital grants and contributions receivable	(542)
<b>(11,253)</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>	<b>5,462</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Statement of Movement on the Housing Revenue Account

<u>2018/19</u> £000		<u>2019/20</u> £000	£000
(2,000)	Opening Balance		(2,000)
	<b>Movement in Year</b>		
(11,253)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	5,462	
11,253	Adjustments between accounting basis and funding basis under statute	(5,462)	
<u>0</u>	Transfer to / (from) reserves		<u>0</u>
<u>(2,000)</u>	<b>Closing HRA Balance</b>		<u>(2,000)</u>

### Note to Statement of Movement on the Housing Revenue Account

<u>2018/19</u> £000		<u>2019/20</u> £000
	<b>Analysis of adjustments between accounting basis and funding basis under statute</b>	
(20,864)	Depreciation, impairment and revaluation (gains) of non-current assets	(37,980)
5,502	Voluntary MRP	
2,727	Gain or (loss) on the sale of HRA non-current assets	3,858
(12)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	
68	Impairment and revaluation of investment properties	456
(3,641)	HRA share of contribution to or from the pension reserve	(890)
19,539	Transfer to Major Repairs Reserve	19,597
3,058	Capital grants and contributions applied	542
4,876	Capital expenditure funded by the HRA	8,955
<u>11,253</u>	<b>Net Adjustment</b>	<u>(5,462)</u>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 1. Council House Rents

At 31 March 2020, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 11.47% (31 March 2019 11.09%). The total arrears were £8.131M (31 March 2019 £6.909M). Rents written off during the year amounted to £0.208M (2018/19 £0.212M). The amount set aside for doubtful debts was £4.980M (31 March 2019 £3.878M). The staged implementation of Universal Credit has led to an increase in the arrears owed by tenants of £1.22M (17.7%) since 2018/19.

An additional provision of £0.089M has been made for the potential increased arrears arising from the COVID-19 pandemic – this provision applies only to rents charged in the last 2 weeks in March, and is likely to increase for 2020/21.

### 2. Housing Stock

As at the 31 March 2020, the Council housing stock was made up of the following types of property:

<b>Number of Properties Held</b>		
<b>31 March 2019</b>		<b>31 March 2020</b>
4,982	Houses	4,900
11,020	Flats	10,927
16	Bungalows	16
<b>16,018</b>		<b>15,843</b>

The Balance Sheet value of HRA assets was as follows:

<b>Balance Sheet Value of HRA Assets</b>		
<b>2018/19 £000</b>		<b>2019/20 £000</b>
<b><i>Property Plant &amp; Equipment</i></b>		
653,463	Dwellings	634,904
8,770	Other Operational Property	8,586
20,441	Assets Under Construction	38,464
<b>682,674</b>		<b>681,954</b>
<b><i>Other Property</i></b>		
5,252	Investment Property	5,708
370	Surplus Assets	424
<b>5,622</b>		<b>6,132</b>
<b>688,296</b>		<b>688,086</b>

The vacant possession value of Council Dwellings at 1 April 2019 was £1,930M (£1,962M as at 1 April 2018) 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

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

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 2020.

### 3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There was £1.7M (2018/19 £1.0M) of impairment charges on the dwelling stock during the year which related to the properties purchased at market value and then impaired down to the basis of rents receivable on existing tenancies.

<u>2018/19</u> £000	Depreciation	<u>2019/20</u> £000
19,264	Balance at 1 April	19,539
(19,264)	Depreciation written off in year	(19,539)
<u>19,539</u>	Depreciation during year	<u>19,597</u>
<u><b>19,539</b></u>	<b>Balance as at 31 March</b>	<u><b>19,597</b></u>

### 4. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2018/19</u> £000		<u>2019/20</u> £000
29,074	Housing Stock	25,389
14,162	Housing Stock Under Construction	15,659
0	Other Property	0
<u><b>43,236</b></u>	<b>Total Capital Expenditure</b>	<u><b>41,048</b></u>
<u>Capital Expenditure Source of Finance</u>		
<u>£000</u>		<u>£000</u>
5,449	Capital Receipts	7,955
0	Grants	188
19,539	Transfer from Major Repairs Reserves	19,597
3,058	Contributions	354
4,876	Direct Revenue Funding	8,955
<u>10,314</u>	Unsupported Borrowing	<u>3,999</u>
<u><b>43,236</b></u>	<b>Total Financing</b>	<u><b>41,048</b></u>

### 5. Capital Receipts

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



## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

housing associations on the basis of need.

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

Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2019/20 the Council received £4.95M (2018/19 £3.63M) from right to buy sales that can be utilised on new build affordable housing projects.

<b><u>2018/19</u></b>	<b>Sale of Assets</b>	<b><u>2019/20</u></b>
<b><u>£000</u></b>		<b><u>£000</u></b>
7,675	Council Housing	10,356
<u>96</u>	Land, Buildings & Equipment	<u>28</u>
<b><u>7,771</u></b>		<b><u>10,384</u></b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### The Collection Fund

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic 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 2020</b>			
<b>2018/19</b>		<b>2019/20</b>	
<b>£000</b>	<b>Council Tax</b>	<b>Notes</b>	<b>£000</b>
	<b>Income</b>		
(112,890)	Income due from Council Tax Payers		(119,561)
(198)	Transfers (to)/ from the General Fund		
	- Hardship Relief		(199)
	- Transitional Relief		(7)
<u>(198)</u>			<u>(206)</u>
<b>(113,088)</b>			<b>(119,767)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
0	- Southampton City Council		2,051
0	- Hampshire Police Authority		244
0	- Hampshire Fire & Rescue Authority		90
<u>0</u>			<u>2,385</u>
<b>(113,088)</b>	<b>Total Council Tax Income</b>		<b>(117,382)</b>
	<b>Expenditure</b>		
	Precepts		
95,934	- Southampton City Council Precept		99,746
11,419	- Hampshire Police & Crime Commissioner Precept		13,087
4,230	- Hampshire Fire & Rescue Authority Precept		4,398
<u>111,583</u>		2	<u>117,231</u>
	Impairment of debts		
527	- Write offs		1,275
1,885	- Allowance for impairment		2,984
<u>2,412</u>			<u>4,259</u>
<b>113,995</b>	<b>Total Council Tax Expenditure</b>		<b>121,490</b>
<b>907</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>	4	<b>4,108</b>
(2,386)	Council Tax - Deficit / (Surplus) Brought Forward	4	(1,479)
<b>(1,479)</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>	4	<b>2,629</b>
	<b>Business Rates</b>		
	<b>Income</b>		
<b>(111,057)</b>	Income Collectable from Business Ratepayers	3	<b>(111,401)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
703	- Southampton City Council		2,014
718	- Central Government - MHCLG		1,053
14	- Hampshire Fire & Rescue Service		31
<u>1,435</u>			<u>3,098</u>
<b>(109,622)</b>	<b>Total Business Rates Income</b>		<b>(108,303)</b>
	<b>Expenditure</b>		
2,304	- Payment to MHCLG - Transitional Arrangements		1,942
0	- Payment to MHCLG - Business Rate Retention		27,195
104,322	- SCC Business Rates Retention		80,497
1,054	- HFRA Precept		1,088
0	- Interest on Overpayments		0
311	- Costs of Collection		310
<u>107,991</u>			<u>111,032</u>
	Impairment of debts/appeals		
4,120	- Write offs		1,484
(1,711)	- Allowance for impairment		(94)
(2,601)	- Appeals provision		562
<u>(192)</u>			<u>1,952</u>
<b>107,799</b>	<b>Total Business Rates Expenditure</b>		<b>112,984</b>
<b>(1,823)</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>	4	<b>4,681</b>
(3,541)	Business Rates - Deficit / (Surplus) Brought Forward	4	(5,364)
<b>(5,364)</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>	4	<b>(683)</b>
<b>(6,843)</b>	<b>Total Collection Fund (Surplus) / Deficit</b>	4	<b>1,946</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 1. Introduction

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

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

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

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2019/20 the Council was part of a 75% business rates retention pool pilot. The Council share of NDR rates was 74% with the remainder paid to Central Government (25%) and Hampshire Fire and Rescue Authority (1%) (for 2018/19 the Council was in a 100% business rates retention pilot: Southampton City Council 99% and HFRA 1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies 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 2019/20 was 66,693 (2018/19 66,062). The tax base for 2019/20 was calculated as follows:

	<u>Council Tax Base</u>		
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Disabled	34	5/9	18.7
Band A	21,788	6/9	14,525.6
Band B	27,166	7/9	21,129.2
Band C	19,117	8/9	16,993.0
Band D	8,150	9/9	8,150.2
Band E	2,756	11/9	3,368.4
Band F	1,280	13/9	1,849.6
Band G	391	15/9	651.5
Band H	4	18/9	7.0
	<u>80,686</u>		<u>66,693.2</u>

Taking the total Band D equivalents of 66,693 (2018/19 66,062) and multiplying this by the standard Council Tax of £1,804.69 (2018/19 £1,734.14) gives a total estimated income from taxpayers of £120.4M (2018/19 £114.6M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 97.4%, giving a net Council Tax Base of 64,959. Multiplying this by the standard Council Tax of £1,804.69 gives the total precepts on the Collection Fund of £117.2M (64,345 times by £1,734.11 - £111.6M 2018/19).

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

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

In 2019/20 Southampton City Council was part of a 75% Business Rates retention pool pilot along with Portsmouth City Council and the Isle of Wight Council. The shares applicable for the pilot scheme were:

- Southampton City Council (74%) (2018/19 99%)
- Central Government (25%) (2018/19 0%)
- Hampshire Fire and Rescue Authority (1%) (2018/19 1%)

The Council in 2019/20 estimated NDR income of approximately £108.8M (2018/19 £105.4M), £80.5M (2018/19 £104.3M) retained by the Council, £1.1M (2018/19 £1.1M) payable to Hampshire Fire and Rescue Authority and £27.2M payable to Central Government (2018/19 nil). The Rateable Value on 31 March 2020 was £271.3M (2018/19 £266.2M) and the Business Rate Multiplier for the year 49.1p (2018/19 48.0p) in the £, giving gross rates before reliefs of £132.5M (2018/19 £127.9M).

### 4. Collection Fund Balance

The total Collection Fund deficit carried forward for the year is £1.9M (2018/19 £6.8M surplus). An analysis of the balance showing the in-year surplus/deficit and cumulative position is provided in the following table:

	<b>Analysis of Collection Fund Balance</b>					
	<b>In Year</b>			<b>Cumulative</b>		
	<b>Council Tax (Surplus/ Deficit</b>	<b>Business Rates (Surplus/ Deficit</b>	<b>Total</b>	<b>Council Tax (Surplus/ Deficit</b>	<b>Business Rates (Surplus/ Deficit</b>	<b>Total</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Central Government		1,449	1,449		396	396
Southampton City Council	3,511	3,185	6,696	2,231	(1,072)	1,159
Hampshire Fire & Rescue Service	443	47	490	300	(7)	293
Hampshire Police Authority	154		154	98		98
<b>Balance as at 31 March</b>	<b>4,108</b>	<b>4,681</b>	<b>8,789</b>	<b>2,629</b>	<b>(683)</b>	<b>1,946</b>

## GLOSSARY

### 1. Accruals

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

### 2. Budget

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

### 3. Capital Adjustment Account (CAA)

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

### 4. Capital Expenditure

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

### 5. Capital Receipts

The proceeds from the sale of capital assets.

### 6. Community Assets

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

### 7. Contingency

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

### 8. Council Tax

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

### 9. Creditor

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

### 10. Debtor

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

### 11. Depreciation

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

### 12. Effective Interest Rate (EIR)

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

### 13. Fair Value

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

## GLOSSARY

### **14. Financial Assets**

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

### **15. Finance Lease**

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

### **16. Financial Instrument**

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

### **17. Financial Liability**

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

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

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

### **19. General Fund**

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

### **20. Government Grants**

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

### **21. Heritage Assets**

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

### **22. Housing Revenue Account**

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

### **23. Impairment**

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

### **24. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

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

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

## GLOSSARY

### **26. Long Term Investments**

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

### **27. Materiality**

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

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

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

### **29. Money Market Funds**

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

### **30. Non Domestic Rates Retention**

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

### **31. Net Book Value**

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

### **32. Net Expenditure**

Total expenditure for a service less directly related income.

### **33. Net Realisable Value**

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

### **34. Non-Operational Assets**

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

### **35. Operating Leases**

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

### **36. Operational Assets**

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

### **37. Post Balance Sheet Events**

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

### **38. Private Finance Initiative (PFI)**

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

## GLOSSARY

schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

### **40. Public Works Loans Board (PWLB)**

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

### **41. Revaluation Reserve**

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

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

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

### **43. Revenue Expenditure / Income**

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

### **44. Stock**

Comprise the following categories:

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

### **45. Treasury Management**

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

### **46. Useful Life**

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



## SCOPE OF RESPONSIBILITY

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

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

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

[http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2020\\_tcm63-396028.pdf](http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2020_tcm63-396028.pdf)

or can be obtained from the:

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

This statement explains how the council has complied with the 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.

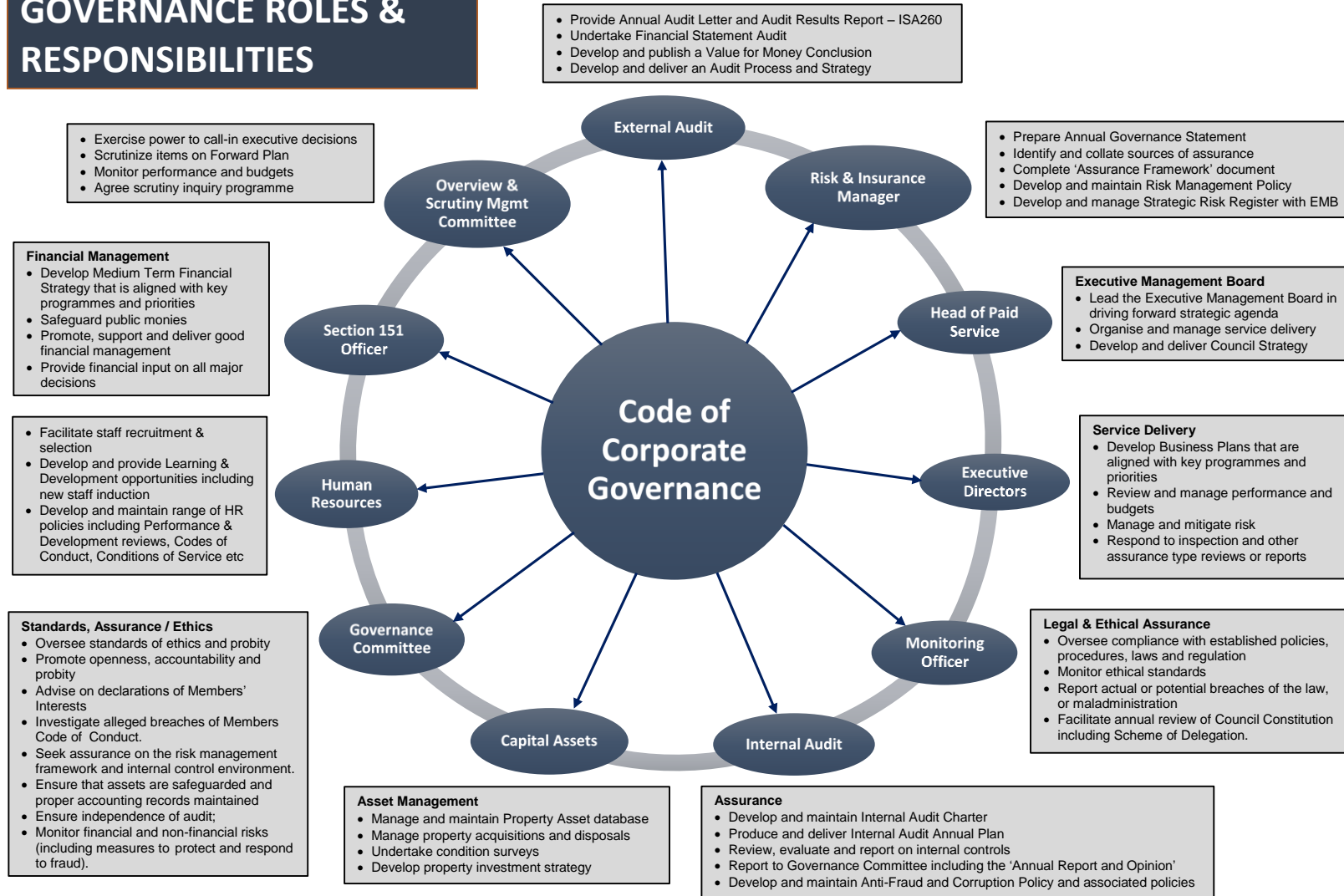
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing 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 2020 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE STATEMENT

## GOVERNANCE ROLES & RESPONSIBILITIES



# ANNUAL GOVERNANCE STATEMENT

## The Governance Framework

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

## Impact of the Covid-19 Pandemic on Governance

This Annual Governance Statement ('AGS') assesses the governance arrangements that were in place during 2019/20 and for most of the year the governance arrangements as described in this document were in place and unaffected by Covid-19. It is however recognised that the Covid-19 pandemic did have an impact on governance during March 2020 and into 2020-21 (and potentially beyond).

The following is a summary of the council's initial response in terms of the impact on governance:

At commencement of the initial lockdown period it was identified that the usual decision-making processes may become impossible or unlawful to carry out. In order to aid delivery of council functions during the pandemic, on 18th March 2020, Council resolved to temporarily suspend all parts of the Constitution that required formal decision making by Elected Members. This action was necessary in order to ensure continuity and agility when dealing with the pandemic and, in the temporary absence of Full Council meetings, further authority was delegated to the Chief Executive, Executive Directors and the Service Director; Legal and Business Operations (and Heads of Service in their absence), to exercise all decisions that would ordinarily be decided by members. Decisions would only be valid after consultation with the Leader of the Council and/or the relevant Cabinet Member as appropriate. The foregoing included the suspension of all financial limits and the Key Decision criteria but did not include setting new strategic policy or council priorities which have a democratic mandate from the citizens of Southampton.

In May 2020 the Emergency Rules approved by Council in March 2020 were removed in light of the new law to permit virtual decision-making meetings. The report to Council included details of the Officer Delegated Decisions that had been taken under the Emergency Rules.

The elections that were due in May 2020 were postponed until May 2021 in line with government direction.

The council's Financial Procedure Rules ('FPRs') provide authorisation levels within which Officers and the Executive can act, with financial decisions deemed to have a significant impact on the Budget reserved to Council. The impact of Covid-19 was that significant external funding was provided at short notice and approval was needed to enable the deployment of the monies at a local level for both ring-fenced and discretionary pass-through of funds.

In order to avoid the necessity of special council meetings having to be called each time new external funding streams were announced (often with short notice to implement spend) it was agreed, at an Extraordinary Council meeting in June 2020, that FPR's be amended to raise the levels in respect of which Covid-19 related funding acceptance or spend required Cabinet or Council approval. It was also agreed that controls over payment schedules would be temporarily relaxed in order to facilitate the speedy distribution of funds to those in need and that the definition of a Key Decision be further amended to exclude Covid-19 related expenditure from the financial and strategic or policy impact trigger points at which a 'Key Decision' would be required.

Following the outbreak of Covid-19, the council has been closely monitoring all aspects of the financial impact of the crisis together with the longer-term implications on the council's medium-term financial strategy.

In response to Covid-19 and imposition of lockdown, the council enacted its emergency planning structure in March 2020. This comprises strategic 'Gold Command', chaired by the Deputy Chief Executive and made up of the Chief Executive, Executive Directors and including the Interim Director of Public Health, together with an operational 'Silver Command' chaired by the Service Director, Business Development and made up of Heads of Service and other relevant key officers. Each group met to discuss, recommend and agree operational and service delivery matters including reviewing the both

## ANNUAL GOVERNANCE STATEMENT

the council's 'Covid Risk Log' and the 'Stop – Start' register. The former captured the new or emerging risks across the council arising from Covid-19 together with the mitigations in place, with the latter tracking those services and activities that had to be stopped to either due to lockdown restrictions or to enable additional resources to support the delivery of critical services. The risks that were initially identified on the Covid Risk Log have since been transferred, and are now being managed, via the council's Strategic Risk Register or the Health Protection Board's Outbreak Control Plan Risk Log.

'Gold Command' initially met on a daily basis from March which reduced to three times a week during April and then to weekly in May. 'Silver Command' met on a weekly basis throughout this initial period. There were also regular meetings between the council's Executive Management Board and Cabinet to provide updates on Covid-19 related issues.

The frequency of both 'Gold' and 'Silver' Command meetings is aligned with and reflects the current status of the pandemic in terms of spread of infection and impact on council services. For a short period in September the frequency of meetings was reduced however it has since been increased to reflect the anticipated 'second wave'.

In addition, the council's Emergency Preparedness, Resilience and Response Team, the interim Director of Public Health and other relevant key officers have, and continue to, work closely with colleagues on the Hampshire & Isle of Wight Local Resilience Forum ('HIOW LRF') to ensure that the emergency response is managed in a way that is proportionate and ensures that the local system, especially in health and care, is able to cope with the pandemic. The LRF is a formal legal partnership of key statutory agencies in a given area and is working together on the response to Covid-19, as well as focusing on plans to help the residents, businesses and communities across Hampshire and the Isle of Wight to recover from the wider effects of the pandemic.

A Southampton COVID-19 Health Protection Board was also established to provide strategic system-wide leadership in preventing the spread of COVID-19 infection, and a Councillor-led Outbreak Engagement Board established to ensure robust public engagement and assurance in relation to outbreaks of COVID-19 infection.

The council also put in place 'recovery workstreams' led by nominated Executive Directors which, where appropriate, seek to reflect on the lessons learned from the council's initial response to the outbreak and ensure that these are incorporated in the 'second wave planning'.

It is recognised that the impact of the Covid-19 pandemic will be to significantly reduce the coverage of the wider assurance framework on the organisation. There will be a slightly reduced audit plan, to take account of changing circumstances, and reduced activity of external inspectorates and regulators, as well as change in focus in some cases.

Changes to the Council's governance arrangements in response to the Covid-19 crisis will be assessed and its governance arrangements optimised to take account of the new operating environment with the medium to longer term impact on governance to be reflected and reported on the 2020/21 AGS.

## ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

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

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

The council takes any complaints that it receives seriously and has processes to follow to make sure that every complaint is dealt with fairly and sorted out as quickly as possible. A formal Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' is in place which is published on the council's website. This document, which sets out how customers may wish to share their experiences of using council services, is subject to annual review. In accordance with legislation there is a separate 'Children and Families Statutory Complaint Policy' in place. Complaints relating to 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 council's website includes a 'Have your say' section which set out how residents and other stakeholders can 'have their say' on various issues via:

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

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the budget report for 2020/21 and onward to 2022/23. Information was communicated in an easy to understand format with analysis on the consultation feedback considered by Cabinet before they made their final recommendations to Full Council.

The 2018 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton City Council with Southampton Connect (a multiagency partnership including representatives from the public, private and voluntary/community sectors) the Police and the NHS. This was intended to capture and help understand the views of local residents. The survey was undertaken by telephone using a mixture of random digit dial (RDD) and Mobile telephone samples of residents across the authority area and a total of 1,190 valid surveys were completed. The City Survey is used to monitor the success of key council strategies and to prioritise activity and was intended to be repeated in 2020. This was however overtaken by events, noting that three 'Residents' Survey – Coronavirus (Covid-19)' have been undertaken in 2020. These were intended to obtain an understanding of how residents are interpreting guidance, how the pandemic is impacting on their lives and the concerns that they may have during this time.

The council has in place a 'People's Panel' which now has a membership of over 2,000 people and is open to anyone over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

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

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

The councils 'Children in Care Council' groups provides an opportunity for those children in care to share their views and experiences and making sure that their voices are heard with a view to improving things for themselves and others.

# ANNUAL GOVERNANCE STATEMENT

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

In February 2020 the council launched a new Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') to replace the previous Southampton City Council Strategy 2016-2020. The new Corporate Plan sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan will be delivered through achieving detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



In order to achieve the council's priority outcomes employees are expected to demonstrate the council's Values. These recognise that the way we work individually and collectively is as important as the work we do and employees are expected to demonstrate the five Council Values:



## ANNUAL GOVERNANCE STATEMENT

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



In addition, there are other key strategies that reflect the vision and ambition of both the city and wider region.

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

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

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

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2020 the Solent LEP will develop a new future facing strategy called Solent 2050.



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

The council's Medium Term Financial Strategy ('MTFS') is also core part of the council's strategic framework and plays a pivotal role in translating the council's strategic plans and ambitions into action. An MTFS for the period 2019/20 to 2022/23 was in place with an updated version for the period 2020/21-2022/23 approved by Full Council in February 2020. The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priorities. The Strategy is based around 6 key aims:

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

The MTFS takes into account a number of other strategies, policies and plans that impact on the direction of the council and the day to day operations, enabling integrated financial planning over the medium term. The 2019/20 budget setting process incorporated business academies, and beginning to embed commercialisation across the council. The business academy process is designed to help develop service business plans that are aligned to the key priorities with the output fed into the budget process.

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

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

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice

## ANNUAL GOVERNANCE STATEMENT

of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

All scrutiny meetings are held in public, and at the discretion of the Chair provide an 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 the Inquiry Panel members.

'Financial Scorecards' produced for each service area together with a portfolio which provide relevant management information to assist in the explanation of variances and help to encourage evidence based forecasts. Significant in year budget variances are challenged by senior management with action plans and mitigations put in place.

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

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

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

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

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

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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' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas.

A key document is the council's Strategic Risk Register which reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of key initiatives and priorities. The Strategic Risk Register is developed in consultation with Service Directors who are also provided with information on 'Core Cities' strategic risks in order to sense check against the council's strategic risks.

The Strategic Risk Register, which is updated and reviewed by the Executive Management Team on a quarterly basis, identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An exceptions report identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management including receiving the draft Statement of Accounts. The Committee receives regular update reports in respect of the delivery of the annual internal audit plan and the outcome of individual audit reviews. It also receives an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities as set out in the Corporate Plan. These plans identify the key challenges and opportunities associated with the delivery of the respective priority projects and how they can be addressed. Heads of Service receive monthly financial performance and absence data and are expected to review performance levels.

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

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

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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 Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015). This includes a link to both the current and previous Statement of Accounts together with relevant audit certificates. These documents show how public money has been used.

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

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

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money. The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

### **REVIEW OF EFFECTIVENESS**

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

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any significant risk exposure and control issues, including fraud and governance. Audits rated 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.

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- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment : The Chief Internal Auditor's opinion for 2019-20 was that a 'limited assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council.

The results of the work carried out in 2019-20 show that, although the level of 'limited' and 'no assurance' reviews have decreased slightly from the previous year (which would indicate that improvements are continuing), an area that still requires work is in relation to movement on the implementation of agreed actions to resolve risk exposure. This is reflected in 'Significant Governance Issue' Item 4.

- The Internal Audit Charter and delivery of the annual Internal Audit plan;
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. In previous years, these self-assessments have been completed by the respective Service Directors however, for this year, the process involved a combination of Heads of Service and Service/Executive Directors. This approach was necessary as the implementation of the Resources Review, which comprised a reorganisation of council's top management posts, created some challenges as the AGS is a backward look at the governance arrangements in place in 2019-20.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The annual report on Risk Management Activity and including the Risk Management Policy and Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

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## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

An important part of both the 2020-25 corporate business planning process and the council's Workforce Strategy is the requirement for service areas to identify and consider future organisational development requirements and including the resilience of the service and, in particular, succession planning. This is however an area where further actions are required within service areas in terms of having in place formal/ informal succession plans noting that the 2019 Resources Review, which saw the reorganisation of council's senior management, resulted in some areas of experience exiting the organisation and gaps opening in skills levels or resilience.

**Planned Action (including update):** Work during coronavirus lockdown has looked at skills survey for staff against critical services and Business Plans have been updated to reflect this. It was intended that lessons learned from the initial lockdown period would be pulled together through EMB to help understand key skills issues and identify any gaps. This work has however been superseded by work that is focused on redeployment planning for a 2nd wave of the pandemic, which has focused on skills and requirements in this context.

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

**Target for completion:** End Q3 2020-21

### 2. Governance Issue

A resourcing review of the council's top 50 management posts was undertaken in 2019. This 'Resources Review' was designed to ensure that the organisational structure was aligned with the five key strategic themes, agreed with Council in July 2019, to address the opportunities and challenges the city faces over the next five years and beyond. Associated with this process was the creation of a new reporting hierarchy comprising the 'Executive Management Team (Executive Directors and Chief Executive), Senior Leadership Team (Service Directors and Heads of Service), Leadership Team (including service managers).

During this process it was necessary for interim postholders to be in place and/or appointed to certain senior management posts whilst the appointment and recruitment process was undertaken and completed.

**Completed Action:** All Senior posts were recruited to by the end of 2019 with all new postholders and organisational structures in place 1<sup>st</sup> April 2020

### 3. Governance Issue

Lack of consistent adherence and compliance by officers to policies such as Employee Gifts & Hospitality and Registration of Outside Interest, and Travel and Subsistence. The self-assessment return indicates that there are still pockets across the Authority that are unfamiliar with the required arrangements and declarations that should be completed. This position was also supported with the results of the follow-up audit review for, Ethics, where agreed actions had been delayed. The actions outstanding are regarding staff awareness/ registration and the need to update the policy.

**Planned Action (including update):** Policies were communicated and we are looking at new forms library as the old platform is decommissioned. An HR policy group has been established, and has completed 6 reviews, 5 policies currently under review. This work is ongoing.

A second 'follow up' Internal Audit report issued in September 2020, which focussed on awareness of and compliance with the Registration of Outside Interest Policy and the Gifts and Hospitality Policy, showed an improved position with an overall assurance level of 'Reasonable'.

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**Responsible Officer:** Executive Director Business Services

**Target for completion:** End Q3 2020-21

### 4. Governance Issue

An agreed process has been developed whereby Internal Audit provides a periodic report to the council's Executive Management Team in respect of 'follow up' reviews on any 'limited' or 'no assurance' audit reports. This is in terms of seeking to prompt or ensure, on a consistent basis, that the agreed management actions have been implemented or otherwise satisfactorily progressed. This is reflected in the Chief Internal Auditors Annual Report and Opinion

Full implementation of this process, which commenced in February 2020, has however been adversely impacted by Covid 19.

**Planned Action (including update):** Revised reporting arrangement to be developed and built into the revamped performance reporting framework for the Executive Management Team.

The Corporate reporting dashboard was introduced in July and is scheduled on a quarterly basis going forwards. This, and all key governance reporting (Information Governance, Internal Audit & Risk), will be reported at the same quarterly meetings from January 2021.

**Responsible Officer:** Executive Director Business Services

**Target for completion:** End Q3 2020/21

### 5 Governance Issue

In order to manage the council's performance effectively the council's revised Senior Management Team needs to review monitoring reports regularly. Plans to conclude a new regular comprehensive monitoring report, and the planned regular reviews of performance at a corporate level, have been disrupted by the Resource Review, which introduced a new senior management structure and team, and the response to the COVID pandemic.

**Planned Action (including update):** Both the Council Plan and performance outcomes have been revised for the Corporate Business Plan 2020 – 2025 (approved in February 2020) and a comprehensive monitoring approach, including finance, workforce, audit, health and safety and performance matters is in development.

The Corporate reporting dashboard was introduced in July and is scheduled on a quarterly basis going forwards. Performance, together with all key governance reporting, will be reported at the same quarterly meetings from January 2021.

**Responsible Officer:** Executive Director Business Services

**Target date for completion:** End Q3 2020/21

### 6 Governance Issue (carried forward from 2018-19)

Whilst a number of actions have been implemented in order to improve officer compliance with the council's procurement policies it was considered to be too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. The intention was that, as part of the 2019/20 Internal Audit Annual Plan, an audit review would look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies.

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**Completed Action:** The Internal Audit review of contract framework and procurement, originally scheduled for March 2020 but had to be deferred to 2020/21 due to the impact of Covid-19, was completed in Q2 20-21 as planned. The audit report is currently in draft and will need client feedback before a final version is issued.

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

.....  
**Sandy Hopkins**

Chief Executive

On behalf of Southampton City Council

.....  
**Councillor Christopher Hammond**

Leader of the Council



## AUDITOR'S REPORT