



**2023/24**  
**DRAFT STATEMENT OF ACCOUNTS**



# STATEMENT OF ACCOUNTS

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## NARRATIVE STATEMENT

This document presents the statutory financial statements for Southampton City Council covering the period 1 April 2023 to 31 March 2024. The statements can be technical and complex, but we have sought to present them as clearly as we can. The narrative statement provides an overview of the authority's financial position for the year and prospects for the medium term.

The 2023/24 financial year has been financially challenging for the council. At the time the 2023/24 budget was agreed in February 2023 it was evident the Council faced serious budget issues. These included an over-reliance on the use of reserves, combined with financial pressures from high levels of inflation, high interest rates and increasing service demands.

In recognition of this financial situation, the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in Spring 2023 to review the financial resilience of the organisation and its financial management arrangements. CIPFA found that the authority was displaying financial stress across five dimensions, including running down of reserves, failure to plan and deliver savings, short term financial planning, a tendency to overspend and a lack of detail in business decisions. CIPFA recommended that a plan to replenish reserves should be put in place, and that the Council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. At the same time work began on a revised Medium Term Financial Strategy and a new financial strategy and action plan aimed at reducing expenditure to within budget for 2023/24, achieving a sustainable budget over the medium term and improving financial resilience was agreed at full Council in July 2023.

Although some difficult decisions have had to be taken, the financial information below shows that the actions taken to reduce expenditure to within budget for 2023/24 were largely successful, with a deficit of around £1.1M being incurred for the year. This compares with a budget deficit reported the previous year (2022/23) of £11.4M.

Looking ahead into 2024/25 and beyond, the Council's financial position remains challenging. Despite considerable progress during 2023/24 in identifying measures to reduce expenditure and identify savings, a structural deficit of close to £40M remains and a balanced budget for 2024/25 was only achieved with the offer of Exceptional Financial Support (EFS) from the government. This support will be in the form of a capitalisation direction, which will allow the Council to use capital resources to meet revenue expenditure in 2024/25. The EFS is not additional funding, and it must be repaid either through capital receipts or borrowing. The Council will therefore seek to minimise the use of the EFS facility wherever possible.

Building on the progress made in 2023/24, the Council will require a stronger focus on financial management and accountability to ensure it improves its financial resilience and secures a sustainable financial position. This will require an improvement in financial management capabilities across the organisation and a strong emphasis on budget management and accountability. Accountability Statements have been introduced for all budget holders setting out their responsibilities for managing within cash limited budgets and a budget review panel established to ensure any overspends are quickly addressed through robust deficit recovery plans.

We know that the financial challenges cannot be addressed by short term and tactical measures alone. The Council is therefore investing in a comprehensive Transformation Programme as part of its plans to address the structural budget deficit. A transformation and improvement plan is also a condition of the EFS offer. A programme has been developed comprising 24 service focussed projects, complemented by five cross-organisational enabling programmes, and is expected to be approved by full Council in July 2024. This includes a Reshaping Financial Management programme which has been established to strengthen financial management in the organisation and to improve the effectiveness of the finance function.

The Council, like all other authorities, also has uncertainty of future levels of Government funding. The Government has not given any indication of funding beyond 2024/25 and any decisions around reforms to the local government finance system have been deferred until after the life of the current parliament. This uncertainty adds considerably to the challenge of planning the authority's finances over the

## NARRATIVE STATEMENT

medium term. We have been cautious with planning the finances of the Council and have assumed funding distributed via the local government finance settlement will remain flat over the medium term and that a business rates baseline reset will occur in 2026/27 and the Council's top-up grant will reduce as a result.

I would like to express my sincere and genuine thanks for all staff in my Finance team during 2023/24 who have played their part in producing the Statement of Accounts and for their wider efforts in supporting the Council.

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

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 7 on page 118.

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 2023/24 there were no material transactions that require this. Note 36 on page 100 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 statement of accounts
5. Issues & developments

### 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 several 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:

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### Key Statistics

Population 263,769  
(HCC - SAPF-2022  
based forecast)

Southampton covers  
49.8km<sup>2</sup>

Average house price  
£231,528 February  
2024

University of  
Southampton ranked  
17<sup>th</sup> in 2024 league  
tables

Southampton ranked  
in the top 10% for  
Good Growth (2023)

Average gross weekly  
(full time) earnings  
£652 (£683 Eng.  
average) 2023  
(resident)

6,000 (4.3%)  
unemployment rate  
Oct 2022 to Sept 2023  
(APS)

102,290 households  
(2021 Census)  
48.7% owned  
21.9% social rented  
29.2% private rented

75.0% 16-64 yrs olds in  
employment (Eng.  
average 75.9%)  
Oct 2022 to Sept 2023

751 planning  
applications 2023/24  
730 Minor and other  
development decisions  
21 Major development  
decisions

7,615 business  
enterprises 2023

37,800 higher  
education students in  
the city 2021/22  
(HESA)

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

### **Council related statistics**

- Our green spaces are free and open to everyone, all year round. We maintain over 416 miles of highways verges and over 200 green spaces covering circa 950 hectares or around 20% of the land use in Southampton. The green spaces include parks, gardens, recreation grounds, natural habitats, ecology areas managed for wildlife (around 75 sites), woodlands and greenways.
- 8 x Green Flag awards for 5 Central Parks (as a collective award), St James' Park, Portswood Rec, Riverside Park, Freemantle Lake Park, Town Quay Park, Mayfield Park (new for 2023) and Peartree Green (new for 2023).
- We also maintain over 100 play areas, 24 multi use games areas, 7 Tennis courts, 6 Skateparks, the Southampton Municipal Golf Course and a mini-golf course.
- 92% of Southampton residents are within a mile of a local library.
- In 2023/24 libraries welcomed almost half a million visitors across six city council and five community partnership libraries. Those visitors borrowed over 750,000 books and e-books, and 34,000 of them attended some of the two and a half thousand activities we run each year to support reading, learning, wellbeing and fun.

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- Southampton libraries are also available at home 24-7 and last year residents used the digital library over 340,000 times to read newspapers and magazines, research family history, practice driving test theory questions or learn a language.
- Southampton Cultural Services Learning and Engagement Team provided activities at our three city venues, Southampton City Art Gallery, SeaCity Museum and Tudor House & Garden, as well as through a programme of outreach activity in the community and online. 44,500 school children, young people and adult learners took part in engagement visits, workshops, talks / tours and collection inspired projects throughout the year.
- Over 242,100 calls answered from residents.
- We provide 15,851 council houses, as of 31 March 2024.
- We support 2,605 people (provisional) in long term care as of 31 March 2024.
- We work with and support 76 schools in the city.
- 3,987 under 5 children used the children centres in 2023 and they made 17,943 visits (total number of different days each individual attended) and engaged in 20,353 activities.
- We look after 538 children looked after (108 per 10,000 people) (number of children looked after at 31 March (including adoption and care leavers).
- 1,671 Commercial Waste Customers and 14,852 Garden Waste Customers.
- Empty around 128,000 bins from households every week.
- We recycled, composted and reused 23,756 tonnes of waste in 2022/23 full year.
- Service and maintain about 470 vehicles.
- City Telecare Services offers 24 hour help to more than 6,200 city residents and over 1,600 Portsmouth residents.
- We have about 3,245 supported housing properties which have the Community Alarm Monitoring property element.
- 2,074 supported properties for people aged over 60.
- We have 218 Extra Care properties in the city.
- 4,045 support plans delivered by Housing Support Workers supporting older vulnerable residents.

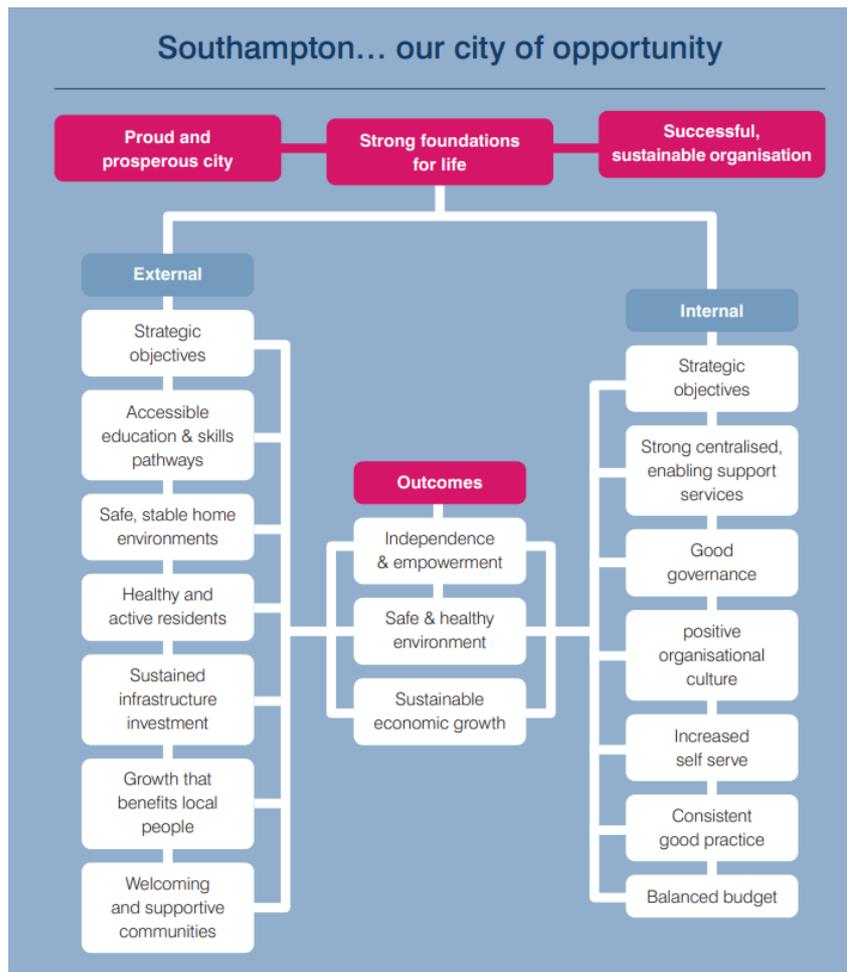
### **Southampton City Council: Corporate Plan (Update 2024)**

The Council's Corporate Plan was updated in March 2024 to reflect our changing circumstances as a council and a city, acknowledging the challenging financial position being faced while still maintaining a vision of a city of opportunity.

The plan commits to creating a place where people want to live, work, study, visit and enjoy. We will continue to work with community leaders, partners, and businesses across the city to deliver the plan for and with the people of Southampton to achieve the city's ambitions.

The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.

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## 2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Charged with directing the outcomes, priorities and policies of the Council are the 51 elected Councillors. The next section describes the political and management structure of the Council.

### **Political Structure**

Southampton City Council is a unitary authority split into 17 wards each represented by 3 councillors. The political structure as at 31 March 2024 was as follows, with the position following the local election held on 2 May 2024 in parentheses:

- Labour 37 (36)
- Conservative 9 (10)
- Liberal Democrats 3 (4)
- Green 1 (1)
- Independent 1 (0)

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### **Council Management Board**

Supporting the work of the elected members is the Council's Management Board (MB). The makeup of the board corresponding to the directorate structure in 2023/24 is detailed below. Note 26 shows the further detail of people that were in a strategic post during 2023/24, together with some changes to executive director posts in March 2024.

Chief Executive – **Andrew Travers (interim)**

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

Executive Director – Place – **Adam Wilkinson (interim – to 28 March 2024)**

Executive Director – Wellbeing & Housing – **Claire Edgar**

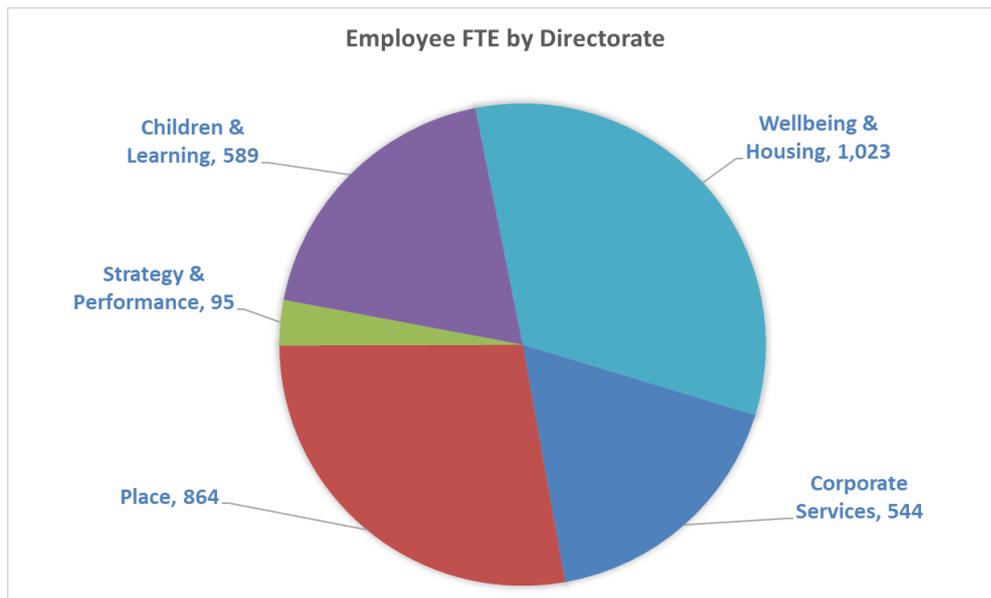
Executive Director – Corporate Services & S151 Officer – **Mel Creighton**

Director – Strategy & Performance – **Munira Holloway**

The board works together to set out the priorities and themes contained within the Southampton City Council Corporate Plan.

### **Staffing**

The Council employs circa 3,114 Full Time Equivalents to deliver these priorities (excluding school employees). The following chart shows how these support the different Council services:



The Council has adopted a hybrid working approach with staff mixing working in council offices and other locations and working from home. The mix varies and is based on the needs of individual services. Hybrid working helps with the efficient and effective use of council accommodation.

### **The Council's Performance**

The measures used to monitor and report on the Corporate Plan are shown below. This indicates performance levels, time periods to which the data relates, and the direction of travel (d.o.t) and trend.

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### ? Last Updated: 09/05/2024 **SCC Key Performance Indicator Report (Corporate Plan)** SOUTHAMPTON CITY COUNCIL

Indicator Description	Frequency	Reporting Period	Latest Period	Previous Period	Change	DoT	Trend	Target (Latest)	Target RAG	National (Latest)	National RAG	Preferred DoT
Rate of Looked After Children (per 10,000)	Monthly	31/03/2024	98.27	98.67	-0.40	▼		89.00	⊗	71.00	⊗	Lower is better
Key Stage 4 - Percentage of pupils achieving a grade 5 or above in English & Maths	Annual	2023	38.10	42.10	-4.00	▼		41.00	⚠	45.50	⊗	Higher is better
Economic growth measured by GVA per head £	Annual	2021	27,371.00	25,481.00	1,890.00	▲				31138.00	⊗	Higher is better
Percentage of working age adults claiming out of work benefits	Monthly	01/03/2024	4.40	4.30	0.10	▲				4.00	⚠	Lower is better
Gap in median weekly pay between residents and workers	Annual	2023	52.00	36.00	16.00	▲				0.00	⊗	Lower is better
Percentage of economically active population with no or low qualifications (NVQ)	Annual	2021	11.92	10.91	1.00	▲				12.50	✔	Lower is better
Proportion of residents that agree that their local area is a place where people from different backgrounds get on well together (%)		01/01/2020	74.00	71.00	3.00	▲						Higher is better
Percentage of SCC homes that meet the decent homes standard	Quarterly	Q4 2023-24	52.29	51.87	0.42	▲				93.52	⊗	Higher is better
Southampton's relative deprivation rank amongst Local Authorities in England	N/A	2019	55.00	54.00	1.00	▲						Lower is better
Healthy life expectancy at birth (male)	Annual	2019 - 21	62.33	61.35	0.98	▲				63.14	⚠	Higher is better
Healthy life expectancy at birth (female)	Annual	2019 - 21	65.34	63.05	2.29	▲				63.87	✔	Higher is better
Physically active adults	Annual	2021/22	65.89	64.78	1.11	▲				67.31	⚠	Higher is better
Percentage of children in Year 6 with excess weight	Annual	2022/23	40.36	39.77	0.59	▲				36.57	⊗	Lower is better

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### 3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2023/24 was agreed at full council on 22 February 2023. A balanced budget was set based on a council tax increase of 4.99%, £22.0M of new planned savings for the year and £20.6M use of reserves. The following sections describe the actual performance for the year and financial strategies adopted to contain expenditure within budget.

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 asset 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 budget.

<b>General Fund Revenue Account: Outturn Position 2023/24</b>	<b>Budget 2023/24</b>	<b>Outturn 2023/24</b>	<b>Outturn Variance 2023/24</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Directorate</b>			
Children & Learning	51.43	52.84	1.41 A
Corporate Services	30.85	31.12	0.26 A
Place	42.87	45.30	2.43 A
Strategy & Performance	3.76	3.67	(0.09) F
Wellbeing & Housing	86.93	84.97	(1.96) F
<b>Sub total for Directorates</b>	<b>215.85</b>	<b>217.90</b>	<b>2.05 A</b>
Levies & Contributions	0.09	0.09	0.00 A
Capital Asset Management	9.40	8.48	(0.92) F
Other Expenditure & Income	(22.64)	(21.64)	1.00 A
<b>Net Council Expenditure</b>	<b>202.69</b>	<b>204.83</b>	<b>2.14 A</b>
<b>Financed By:</b>			
Council Tax	(115.51)	(115.51)	0.00 A
Business Rates	(49.14)	(49.15)	(0.01) F
Non-Specific Government Grants & Other Funding	(38.04)	(39.08)	(1.04) F
<b>Total Financing</b>	<b>(202.69)</b>	<b>(203.73)</b>	<b>(1.04) F</b>
<b>Transfer from Reserves - Year End Deficit</b>		<b>(1.10)</b>	<b>(1.10)</b>
<b>(Surplus)/Deficit</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.00)</b>

Numbers are rounded. An adverse variance is indicated by 'A' and a favourable variance by 'F'

When the 2023/24 budget was set it was evident that there was a structural budget deficit, reflected in the reliance on reserves to balance the budget. In addition, sizable new budget pressures and increases to existing pressures emerged early in the financial year. In the updated MTFs reported to full Council in July 2023 £30.0M of new budget pressures over and above those allowed for in the 2023/24 budget were identified, mitigated by £9.1M of a first tranche of new cost control measures, to give a forecast overspend of £20.9M.

Work continued throughout the year to bring forward further cost control measures and in-year savings, together with tight controls over spending through the operation of a cost control panel regime. After taking these measures, together with some pressures forecast earlier in the year not materialising to the same extent and the receipt of additional government grant, the final outturn position was a £1.1M overspend

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as per the table above. The overspend was met by a drawdown from the Medium Term Financial Risk Reserve.

The most significant overspend related to the Place directorate (£2.4M adverse), which includes a £3.4M overspend on Home to School Transport driven by the increased numbers of pupils with an Education, Health and Care Plan (EHCP) who are eligible for home to school transport and by the unit costs for transport being higher than budgeted. Favourable variances elsewhere within the directorate have reduced the net deficit, including a £1.7M underspend on Property Services, mostly relating to staffing vacancies.

The Children & Learning directorate overspend (£1.4M adverse) includes a £3.2M overspend on Children Looked After relating to demand pressures on placement spend. Reductions in the level of agency staffing and additional grant funding have helped reduce the net deficit within the directorate.

The Wellbeing & Housing underspend (£2.0M favourable) includes £0.7M for contract review and staff savings within the Integrated Commissioning Unit, £0.5M favourable backdated leisure contract adjustments, and £1.1M of staffing and other underspends across other services, offset by £0.4M increased net costs of temporary accommodation. This is after the transfer of £2.0M of unused winter pressures budget to the Social Care Demand Risk Reserve for use in future years.

The favourable variances for centrally held budgets are:

- Capital Asset Management (£0.9M favourable): reduced capital financing costs following a review of the capital programme and scheme slippage, and better than expected treasury management investment performance.
- Other Expenditure & Income (£1.0M adverse): this reflects additional contributions to reserves to provide cover for risks and future costs, in line with the CIPFA recommendation to replenish reserves.
- Non-Specific Government Grants & Other Funding (£1.0M favourable): additional government grants were notified during the year including £0.5M Business Rates Levy Surplus and £0.4M Top-Up Grant adjustment.

### **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 23 and further in Note 8.

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

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Directorate Outturn Position 2023/24	Budget 2023/24	Outturn 2023/24	Outturn Variance 2023/24
	£M	£M	£M
Salaries & Wages	148.95	146.84	(2.10) F
Premises Costs	14.28	12.64	(1.63) F
Transportation Costs	8.24	11.39	3.15 A
Supplies & Services	108.36	111.97	3.60 A
Internal Charges	16.79	23.31	6.52 A
Other Direct Costs	339.40	378.65	39.25 A
<b>Total Expenditure</b>	<b>636.01</b>	<b>684.81</b>	<b>48.79 A</b>
Internal Income	(45.64)	(47.66)	(2.02) F
Fees, Charges & Rents	(54.11)	(63.39)	(9.28) F
Grants / Contributions	(320.41)	(355.86)	(35.45) F
<b>Total Net Expenditure</b>	<b>215.85</b>	<b>217.90</b>	<b>2.05 A</b>

Numbers are rounded

*This analysis excludes the HRA when compared to the EFA.*

## COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is normally reflected in the following year's Council Tax calculations, although by exception the 2020/21 in-year deficit was spread over 3 years, with 2023/24 being the final year. The Business Rates element of the Collection Fund operates in a broadly similar way.

The Collection Fund has a surplus of £7.2M at 31 March 2024, being a surplus of £8.4M for Business Rates and a deficit of £1.2M for Council Tax. The surplus for Business Rates is primarily that carried forward from 2022/23 but not used during the year. The Collection Fund statement is included on page 110.

## 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 must 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 106 to 109.

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### HRA Outturn Position 2023/24

The table below shows the HRA outturn position. A favourable outturn position allowed for the HRA working balance to be increased from £2.00M to £2.59M.

<b>Housing Revenue Account: Outturn Position 2023/24</b>	<b>Budget 2023/24</b>	<b>Outturn 2023/24</b>	<b>Outturn Variance 2023/24</b>	
	<b>£M</b>	<b>£M</b>	<b>£M</b>	
<b><u>EXPENDITURE</u></b>				
Responsive Repairs	15.10	15.36	0.26	A
Housing Investment	6.44	6.95	0.51	A
<b>Total Repairs</b>	<b>21.54</b>	<b>22.31</b>	<b>0.77</b>	<b>A</b>
Rents Payable	0.20	0.66	0.46	A
Debt Management	0.09	0.08	(0.01)	F
Supervision & Management	26.16	26.48	0.32	A
Interest and Principal Repayments	5.71	5.77	0.06	A
Depreciation	22.07	17.97	(4.10)	F
Capital Financing	4.00	6.00	2.00	A
<b>TOTAL EXPENDITURE</b>	<b>79.77</b>	<b>79.26</b>	<b>(0.51)</b>	<b>F</b>
<b><u>INCOME</u></b>				
Dwelling Rents	(75.14)	(74.82)	0.32	A
Other Rents	(1.24)	(1.10)	0.14	A
<b>Total Rental Income</b>	<b>(76.38)</b>	<b>(75.92)</b>	<b>0.46</b>	<b>A</b>
Service Charge Income	(2.34)	(2.51)	(0.17)	F
Leaseholder Service Charges	(1.05)	(1.31)	(0.26)	F
Interest Received	0.00	(0.10)	(0.10)	F
<b>TOTAL INCOME</b>	<b>(79.77)</b>	<b>(79.85)</b>	<b>(0.08)</b>	<b>F</b>
<b>(SURPLUS)/DEFICIT FOR YEAR</b>	<b>0.00</b>	<b>(0.59)</b>	<b>(0.59)</b>	<b>F</b>
<b><u>BALANCES</u></b>				
Working Balance B/Fwd	2.00	2.00	0.00	
Surplus/(deficit) for year	0.00	0.59	0.59	
<b>WORKING BALANCE C/FWD</b>	<b>2.00</b>	<b>2.59</b>	<b>0.59</b>	

Numbers are rounded

### **DEDICATED SCHOOLS GRANT (DSG)**

The Dedicated Schools Grant (DSG) is a ring-fenced grant received from Government that must be used to fund schools expenditure. Primarily arising from demand pressures within services covered by the High Needs Block (HNB), the DSG has run into deficit in recent years. There was a £3.0M surplus in 2023/24 and the Council's net deficit at 31 March 2024 was £7.1M, compared with £10.1M at the previous year-end. Normally, this deficit would need to be covered by the Council's General Fund reserves, but Government has put in place a statutory override of this requirement until the end of 2025/26, effectively

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meaning the DSG deficit is not required to be covered by the Council's General Fund reserves until after 1 April 2026.

An increase in High Needs funding in 2023/24 helped mitigate some of the pressure being experienced on the HNB and further work is being undertaken as part of the Department for Education's programme Delivering Better Value in Special Educational Needs & Disabilities (SEND) to address the deficit to reduce the need for higher levels of intervention. The Council has put in place a strategy to manage the increase in High Needs which includes developing SEND units and resource provisions within mainstream schools reducing the need for more expensive independent placements. The Capital Programme contains a SEND expansion programme totalling £41.8M, for investment to create extra SEND school spaces within the city.

## CAPITAL

The capital programme budget for the year, including changes approved during the year, was £122.7M in total. This covers both General Fund and HRA capital expenditure. Final capital spend for the year was £98.5M. This was £24.2M less than budgeted, and includes slippage and re-phasing of £3.9M. This will be reflected in the post outturn update of the overall programme.

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

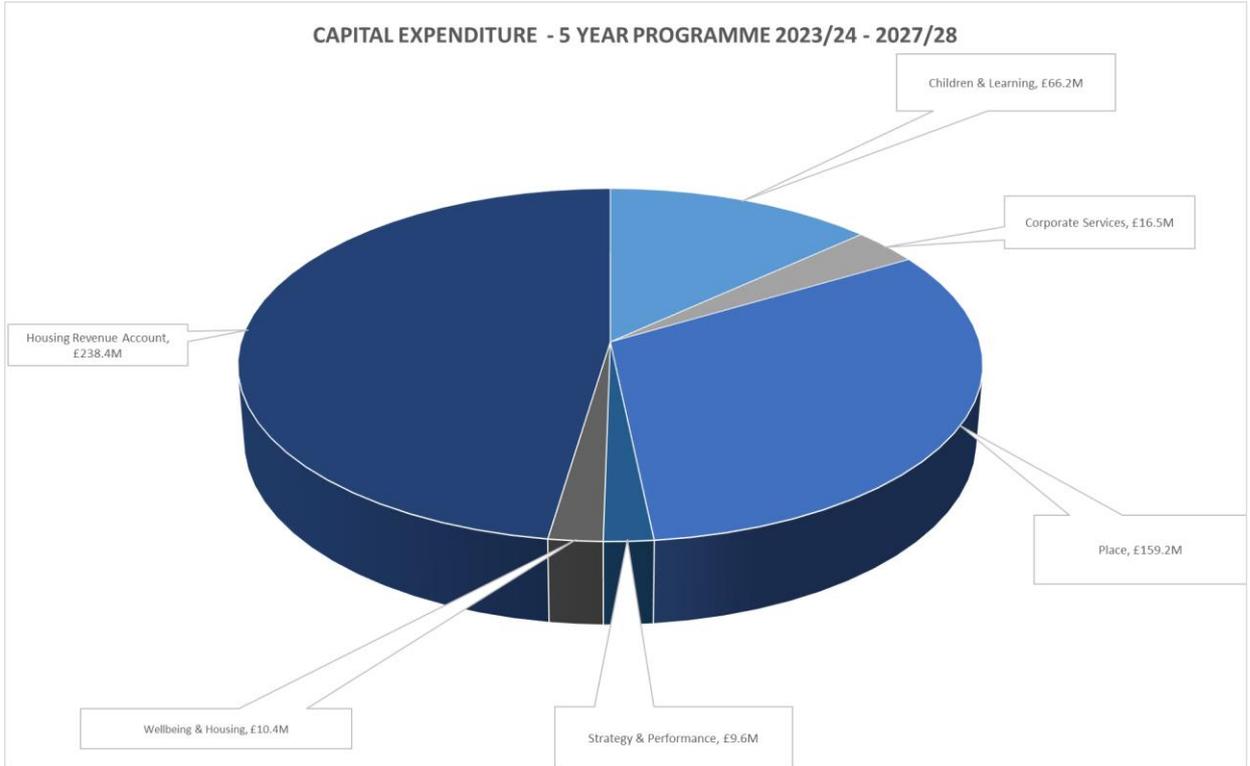
Service	2023/24 Budget £M	2023/24 Expenditure £M	Variance £M
Children & Learning	11.68	9.02	2.66 F
Corporate Services	2.89	1.88	1.01 F
Place	60.26	46.92	13.34 F
Strategy & Performance	2.68	1.46	1.22 F
Wellbeing & Housing	3.21	2.44	0.77 F
<b>Total General Fund Programme</b>	<b>80.73</b>	<b>61.73</b>	<b>19.00 F</b>
Housing Revenue Account	41.98	36.77	5.21 F
<b>Total Capital Programme</b>	<b>122.71</b>	<b>98.50</b>	<b>24.21 F</b>

Numbers are rounded

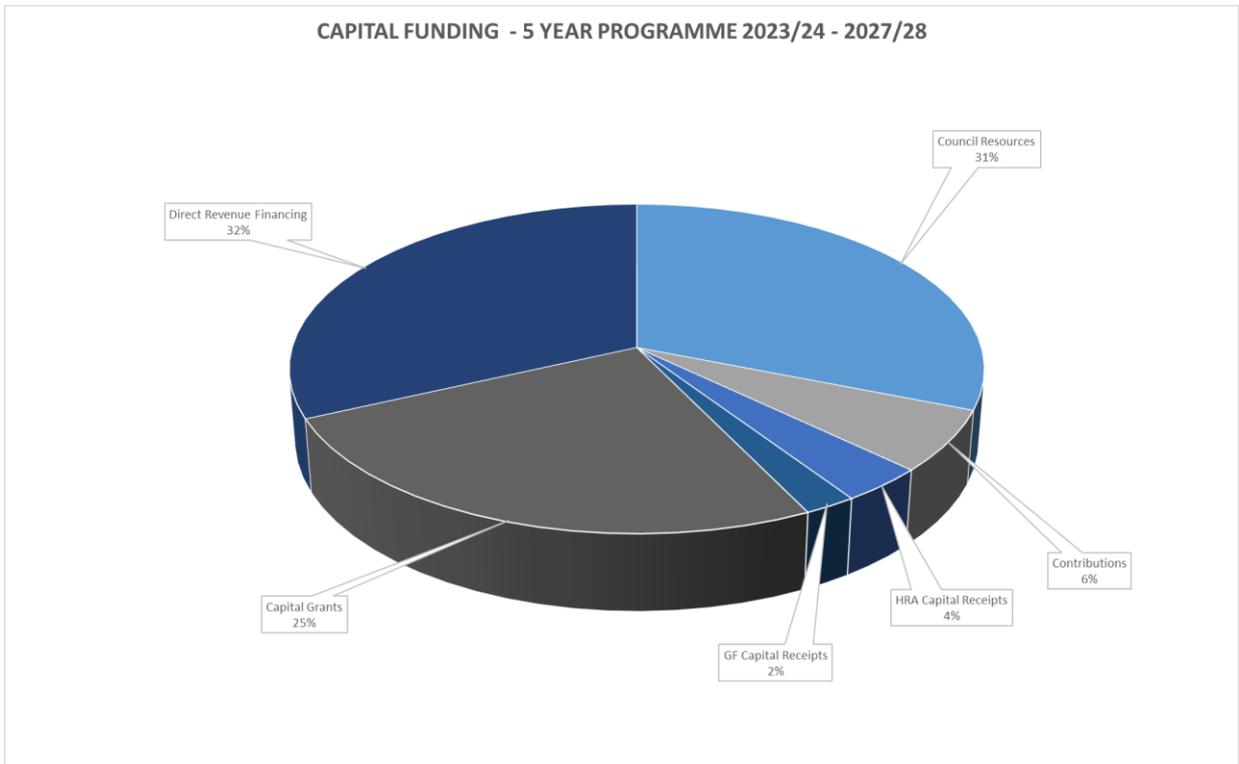
### Five Year Capital Programme

The current approved five-year capital programme is £500.3M. The funding of the programmes is 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 Corporate Services & S151 Officer to make decisions on the management of the Council's debt and the investment of surplus funds.

The Council's current strategy is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. This is because the council has an increasing projected borrowing requirement. The strategy enables a reduction in credit risk, takes pressure off the Council's lending list, and avoids the cost of carrying debt existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund generated returns of 4.76% in 2023/24 against an original investment of £27M. The value of the fund has continued to fall in 2023/24, with the capital value reducing by £1.0M (3.9%) from £25.8M at 31 March 2023 to £24.8M at 31 March 2024, a loss of £2.2M on the original investment. IFRS9 requires gains and losses from unrealised fair value movements for treasury pooled investments to be recognised in the surplus or deficit on the provision of services. However, a statutory override to IFRS9 for English authorities is in place until the end of 2024/25, requiring such movements to be taken to an unusable reserve and not to be a charge to the General Fund revenue account. The Council has set aside £0.8M in the Investment Risk Reserve to provide cover for a potential loss on the value of the CCLA property investment fund when the statutory override ends, with further budgeted contributions to the reserve over the next two years.

### RESERVES AND BALANCES

The Council maintains several useable revenue and capital reserves, as set out in the Balance Sheet.

The Council holds revenue reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in funding. Reserves form a key part of the Council's financial resilience strategy and maintaining its financial sustainability. A new policy on reserves was adopted in July 2023 as part of the wider new financial strategy.

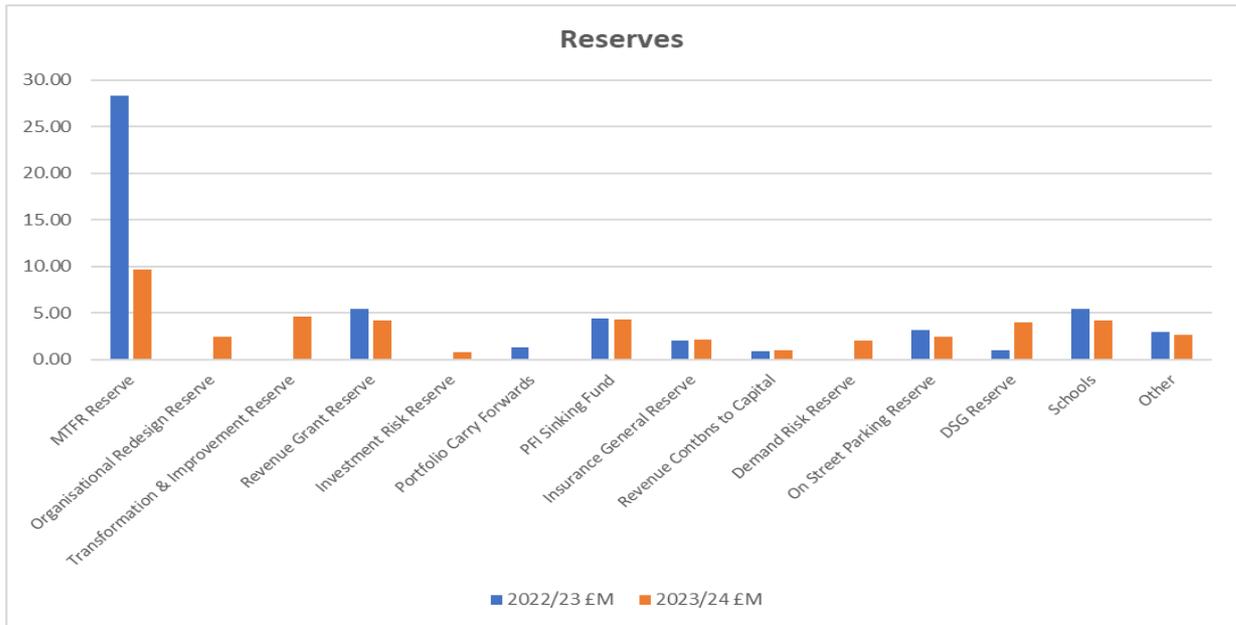
The General Fund Balance operates as a working balance and to provide a contingency against emerging events or emergencies. The level of the General Fund Balance at 31 March 2024 was £10.1M. The level was reconsidered as a part of the budget setting process for 2024/25 and is planned to increase to £12.0M in that year.

The Council's General Fund earmarked revenue reserves reduced by £10.3M from £55.1M at 31 March 2023 to £44.8M at 31 March 2024. The graph below highlights the changes in the value of reserves over that period.

The Council's primary reserve for addressing budget management risks is the Medium Term Financial Risk (MTFR) reserve. Most of the planned use of reserves to balance the 2023/24 budget came from this reserve, together with the £1.1M drawdown to meet the outturn deficit, reducing the balance on the reserve from £28.4M as at 31 March 2023 to £9.7M as at 31 March 2024.

The new policy on reserves includes the approach of using one-off gains to start to build reserves to be used for non-recurrent purposeful investment or spend. One-off gains obtained during the year from a Leisure Services VAT reclaim and business rates refunds have been used to establish a Transformation & Improvement Reserve and Organisational Redesign Reserve, which had balances as at 31 March 2024 of £4.7M and £2.5M respectively. In addition, cover for risks has been strengthened by the creation of the Investment Risk Reserve (£0.8M balance) and re-instatement of the Social Care Demand Risk Reserve (£2.0M balance).

## NARRATIVE STATEMENT



## PRINCIPAL RISKS AND UNCERTAINTY

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

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

**Strategic Risk Register** - The Strategic Risk Register is a key document in terms of identifying, assessing, and managing the council's key strategic risks. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. They reflect a combination of organisational 'resilience' and 'governance' type risks together with risks that are more transient in nature. The Strategic Risk Register is updated and reviewed on a quarterly basis by the council's 'Management Board' (the Chief Executive and Executive Directors) who also consider any new or emerging risks.

**Directorate Risk Registers** – Directorate Risk Registers recognise that, in addition to the council's Strategic Risks, there will be other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. Such risks, although significant in themselves, may not however be considered as cross-cutting or be of such significance that they are considered a 'strategic risk' that requires Management Board oversight. The risks that appear in a Directorate Risk Register will typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

**Project and Programme Risk Management** - The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

## NARRATIVE STATEMENT

**Decision Taking: Corporate Report Template** - The council's standard corporate report template includes a 'Risk Management Implications' section. This section requires a report author to highlight any significant risks associated with the decision and provide the decision maker with assurance the appropriate actions/controls are in place to mitigate the risk. It should also mention what consultation has been carried out in preparation (both internal and external) and report on any responses received and an analysis (both positive and negative) of those reports.

**Business Planning** - The council undertakes an annual business planning and budgeting process with all Service Business Plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. Significant risks that may threaten or adversely impact delivery of their key priorities and outcomes would be expected to be considered for inclusion in the Directorate Risk Register.

**Partnerships** - All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty Living Places) and other major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'. There is also guidance published internally on the council's intranet site in respect of managing risk in respect of non-commercial partnership working.

### 4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2024. It details both revenue and capital elements for both the General Fund and the HRA.

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

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

<b>Core Financial Statements:</b>	Page
<b>Responsibilities for the Statement of Accounts</b>	22
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Expenditure and Funding Analysis (Not a Core Financial Statement)</b>	23
The purpose of this note 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 services. 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>	24
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>	25
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>	26
The Balance Sheet shows the value as at the 31 March 2024 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>	27
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>	28 – 105
<b>Housing Revenue Account (HRA)</b>	106 - 109
This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.	
<b>Collection Fund</b>	110 - 112
This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	
<b>Glossary</b>	113 - 117
<b>Annual Governance Statement - Draft</b>	118 - 132
<b>Auditor's Report and Certificate</b>	133

## 5. ISSUES AND DEVELOPMENTS

### Reshaping Financial Management

CIPFA made recommendations to strengthen the Council's financial management arrangements following its review. A financial management improvement plan was developed to address those recommendations and work got underway in 2023/24 through the establishment of a Reshaping Financial Management programme. The key objectives of the programme are to develop, deliver and embed robust financial management and practice across the organisation and to deliver an effective finance function. The programme has been designed to implement the CIPFA recommendations via five workstreams: People & Leadership, Process, Data & Reporting, Technology and Debt.

## NARRATIVE STATEMENT

### Starboard Way

The final phase of the development of the Former Oakland's Community School Site was completed in 2023/24, delivering 103 new affordable homes, at a cost of £19.8M. The scheme comprised of two, three and four-bedroom houses and one and two-bedroom apartments and benefits from a range of energy-efficient features. The homes at Starboard Way are a mixture of 66 council-rented and 37 share-ownership homes.

The new scheme at Starboard Way provides:

- A varied layout of semi-detached houses in pairs, short terraces of houses, and small blocks of two and three-storey flats
- Attractive brickwork elevations with feature detailing
- Energy-efficient measures which include photovoltaic solar panels
- A cycle path which has been rerouted through the new development to improve safety and surveillance
- Electric Vehicle charging points in parking areas for the apartments, plus improved electrical infrastructure (including electrical substation upgrade) to enable houses to have the option for EV charging at a later date

There are also areas of open space across the development which will include formal and informal play once completed.

### Townhill Park Estate Regeneration

The regeneration of Townhill Park will replace old council housing stock with around six-hundred brand new energy efficient council homes. During the year work stopped on 3 plots (Plots 2, 9 & 10) which were being developed through a Council design and build tender as the contractor no longer wished to deliver the project. The Council has been developing an alternative model for increasing the affordable homes provision in the city. Through the Affordable Homes Framework (AHF) the Council will make land available to our framework Registered Providers who will then provide the affordable homes to which the Council will have nomination rights for those on the housing waiting list. Plots 5 (Benhams, Meggeson and Hallet blocks) & 6 (shops with residential above and former vacant pub) were already approved to go into the AHF and are currently out to mini tender under the AHF. In February 2024 Cabinet agreed the transfer of Plots 2 and 9 to the AHF and these sites will be going out to AHF tender in the summer 2024. Due diligence work is proceeding on Plot 10 to decide on the best delivery model and a decision is due in the summer. Decommissioning of Plot 7 Kingsdown Way blocks continues as does completion of decommissioning of Plots 5 & 6.

Following a successful application, the Council has been awarded £1.1M from the government's Brownfield Land Release Fund to demolish the vacant buildings on Plot 9 (Rowlands Walk) and Plot 5 (the 2 vacant Benhams blocks) to allow new affordable homes to be built via the AHF. The residents from Benhams Road and Rowlands Walk have been moved out of these blocks in preparation for the demolition, which is due to complete late autumn 2024.

The 4 sites (Plots 5 & 6 and 2 & 9) currently allocated to the AHF are likely to produce around 450 new homes and new retail facilities on Plot 6. The exact numbers will depend on the winning scheme submitted by the Registered Provider.

### New Deaf Resource Base

A new specialist resource unit for deaf children at Newlands Primary School was completed in November 2023 at a cost of £1.5M. The new purpose-built single storey building will provide a dedicated space for specialist teaching and school interventions, including speech therapy, that will allow deaf children to meet their full potential. The children will learn alongside their peers and be fully integrated into the life and education at Newlands Primary School.

## NARRATIVE STATEMENT

### Closure of Holcroft House

The Council's residential care home Holcroft House was closed in December 2023. Several fire safety issues had been identified with the building, together with the presence of asbestos which would have required substantial work to rectify. It was not possible to find a way of keeping residents in Holcroft House during the required works without causing a significant risk to their health and wellbeing. Through a carefully managed move, residents of the home have been relocated to permanent alternative accommodation and the property closed as a care home.

### Asset Development and Disposal Programme

The Council initiated an asset development and disposal programme (ADDP) in 2023/24 with the vision to drive Southampton's growth through the disposal, development, or retention of the Council's corporate, operational and investment property portfolio. Alongside the securing of capital receipts to help fund the Council's transformation programme and achieve financial sustainability, ADDP will seek to achieve wider financial and economic benefits from the disposal and development of council-owned assets. The first property to be disposed of under this programme was One Guildhall Square, for which the sale proceeds were £12.75M (net of VAT).

### Integrated Highways and Transport Capital Programme

Work progressed during the year on the Council's Integrated Transport & Highways Capital Programme for 2023/24, including £19.1M of improvements via the Transforming Cities Fund project, £12.1M of works as part of the Highways Roads Programme covering carriageway resurfacing, footway & kerbing reconstruction, and footway surfacing, and £4.8M through the Future Transport Zone programme. Completed schemes include:

- improvements to Central Station Interchange;
- the Glen Eyre Quietway; and
- the Woolston and Itchen Active Travel Zone.

### Tackling Health Inequalities

The Council, in partnership with University of Southampton, Solent University and Southampton Voluntary Services (SVS), has been successful in securing £5M of funding from the National Institute of Health and Care Research (NIHR) that aims to tackle health inequalities in key community groups over the next five years.

The NIHR Health Determinants Research Collaboration Southampton commenced in January 2024 and is hosted by the Council, working with the universities and SVS to combine expertise in the wider determinants of health. Bringing together local government and community knowledge with research skills from the academic field, the aim is to improve the evidence base on which policy decisions are made in important areas that impact on health and health inequalities.

### Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2023/24. Temporary relief for certain reporting on infrastructure assets first introduced through an update to the 2021/22 Code issued in November 2022 also applies to the 2023/24 Code. The requirement to implement International Financial Reporting Standard (IFRS) 16 Leases has been deferred from 2022/23 until 2024/25.

# 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 2024 and of its income and expenditure for the year ended 31 March 2024.

Signed **M Creighton** \_\_\_\_\_ Date  
Section 151 Officer

## 4. Approval of the Accounts

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

Signed **S Leggett** \_\_\_\_\_ Date  
Chair, Audit Committee

## THE FINANCIAL STATEMENTS

### Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 48. Note 5 contains an explanation of the restatement for 2022/23.

<u>2022/23 Restated</u>				<u>2023/24</u>		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
66,947	9,128	76,075	Children & Learning	52,841	3,541	56,382
28,181	6,764	34,945	Corporate Services	31,118	1,933	33,051
44,370	22,994	67,364	Place	45,298	16,855	62,153
3,580	1,097	4,677	Strategy & Performance and CEO	3,667	(54)	3,613
96,079	6,082	102,161	Wellbeing & Housing	84,973	(5,165)	79,808
(7,379)	5,259	(2,120)	Housing Revenue Account (HRA)	(13,390)	(5)	(13,395)
0	547	547	Other Income & Expenditure	0	1,615	1,615
			<b>Other items of expenditure and income:</b>			
0	3,143	3,143	Revaluation & Impairment of General Fund Assets	0	6,343	6,343
0	12,598	12,598	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	155,392	155,392
<b>231,778</b>	<b>67,612</b>	<b>299,390</b>	<b>Cost of Services</b>	<b>204,507</b>	<b>180,455</b>	<b>384,962</b>
<b>(184,018)</b>	<b>(18,219)</b>	<b>(202,237)</b>	<b>Other Income &amp; Expenditure</b>	<b>(194,832)</b>	<b>(1,984)</b>	<b>(196,816)</b>
<b>47,760</b>	<b>49,393</b>	<b>97,153</b>	<b>(Surplus)/Deficit</b>	<b>9,675</b>	<b>178,471</b>	<b>188,146</b>
(111,960)			Opening General Fund Balance	(65,120)		
(2,920)			Opening HRA Balance	(2,000)		
46,840			Less/Plus Deficit/(Surplus) on General Fund	10,264		
920			Less/Plus Deficit/(Surplus) on HRA	(590)		
(65,120)			Closing General Fund Balance	(54,856)		
(2,000)			Closing HRA Balance	(2,590)		
<b>(67,120)</b>			<b>Closing General Fund &amp; HRA Balance</b>	<b>(57,446)</b>		

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

Note 5 contains an explanation of the restatement for 2022/23.

<u>2022/23 Restated</u>				<u>2023/24</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
<u>£000</u>	<u>£000</u>	<u>£000</u>		<u>Notes</u>	<u>£000</u>	<u>£000</u>	
263,305	(187,230)	76,075	Children & Learning		269,514	(213,132)	56,382
101,884	(66,939)	34,945	Corporate Services		101,554	(68,503)	33,051
125,720	(58,356)	67,364	Place		119,496	(57,343)	62,153
6,127	(1,450)	4,677	Strategy & Performance and CEO		4,830	(1,217)	3,613
170,687	(68,526)	102,161	Wellbeing & Housing		173,603	(93,795)	79,808
82,332	(84,452)	(2,120)	Housing Revenue Account (HRA)		75,669	(89,064)	(13,395)
678	(131)	547	Other Income & Expenditure		1,724	(109)	1,615
			<b>Other items of expenditure and income:</b>	6			
3,143	0	3,143	Revaluation & Impairment of General Fund Assets		6,343	0	6,343
12,598	0	12,598	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		155,392	0	155,392
<b>766,474</b>	<b>(467,084)</b>	<b>299,390</b>	<b>Cost of Services</b>	8	<b>908,125</b>	<b>(523,163)</b>	<b>384,962</b>
25,055	(11,558)	13,497	Loss/ (Gain) on the disposal of Non Current Assets	6, 12c	49,862	(18,514)	31,348
89	0	89	Contributions to Other Local Public Bodies		91	0	91
<b>25,144</b>	<b>(11,558)</b>	<b>13,586</b>	<b>Other Operating Expenditure</b>		<b>49,953</b>	<b>(18,514)</b>	<b>31,439</b>
2,703	(6,890)	(4,187)	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(11,610)	(6,841)	(18,451)
15,543	0	15,543	Interest payable and similar charges	11	18,349	0	18,349
0	2,828	2,828	Interest and Investment Income	11	0	(2,412)	(2,412)
11,061	0	11,061	Net interest on the defined benefit liability (asset)	34b	4,671	0	4,671
<b>29,307</b>	<b>(4,062)</b>	<b>25,245</b>	<b>Financing, and Investment Income &amp; Expenditure</b>		<b>11,410</b>	<b>(9,253)</b>	<b>2,157</b>
0	(108,146)	(108,146)	Council Tax Income		0	(115,233)	(115,233)
0	(47,632)	(47,632)	Business Rates		0	(46,796)	(46,796)
0	(47,264)	(47,264)	General Government Grants	37c	0	(39,262)	(39,262)
0	(4,668)	(4,668)	S31 Business Rates Grant for COVID-19 Reliefs	37c	0	186	186
0	(33,358)	(33,358)	Capital Grants and Contributions	37b	0	(29,307)	(29,307)
<b>0</b>	<b>(241,068)</b>	<b>(241,068)</b>	<b>Taxation and Non-Specific Grant Income</b>		<b>0</b>	<b>(230,412)</b>	<b>(230,412)</b>
<b>820,925</b>	<b>(723,772)</b>	<b>97,153</b>	<b>Deficit/(Surplus) on the Provision of Services</b>		<b>969,488</b>	<b>(781,342)</b>	<b>188,146</b>
		(40,994)	Deficit/(Surplus) on revaluation of non current assets	22a			(46,885)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		(367,877)	Remeasurements of the net defined benefit liability (asset)	34b			(37,430)
		<b>(408,871)</b>	<b>Other Comprehensive (Income)/Expenditure</b>				<b>(84,315)</b>
		<b>(311,718)</b>	<b>Total Comprehensive (Income)/Expenditure</b>				<b>103,831</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 2023</b>	<b>(10,066)</b>	<b>(55,054)</b>	<b>(2,000)</b>	<b>0</b>	<b>(19,805)</b>	<b>0</b>	<b>(34,949)</b>	<b>(121,874)</b>	<b>(1,288,741)</b>	<b>(1,410,615)</b>
<b><u>Movement in Reserves during 2023/24</u></b>										
Total Comprehensive Income and Expenditure	47,138		141,008					188,146	(84,315)	103,831
Adjustments between accounting basis and funding basis under regulations (note 10)	(36,874)		(141,598)		(14,533)		(782)	(193,787)	193,787	0
Transfers to / (from) earmarked reserves (note 9)	(10,264)	10,264						0		0
<b>(Increase) / Decrease in Year</b>	<b>0</b>	<b>10,264</b>	<b>(590)</b>	<b>0</b>	<b>(14,533)</b>	<b>0</b>	<b>(782)</b>	<b>(5,641)</b>	<b>109,472</b>	<b>103,831</b>
<b>Balance at 31 March 2024</b>	<b>(10,066)</b>	<b>(44,790)</b>	<b>(2,590)</b>	<b>0</b>	<b>(34,338)</b>	<b>0</b>	<b>(35,731)</b>	<b>(127,515)</b>	<b>(1,179,269)</b>	<b>(1,306,784)</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 2022</b>	<b>(10,066)</b>	<b>(101,894)</b>	<b>(2,920)</b>	<b>0</b>	<b>(14,750)</b>	<b>0</b>	<b>(35,835)</b>	<b>(165,465)</b>	<b>(933,432)</b>	<b>(1,098,897)</b>
<b><u>Movement in Reserves during 2022/23</u></b>										
Total Comprehensive Income and Expenditure	85,025		12,128					97,153	(408,871)	(311,718)
Adjustments between accounting basis and funding basis under regulations (note 10)	(38,185)		(11,208)		(5,055)		886	(53,562)	53,562	0
Transfers to / (from) earmarked reserves (note 9)	(46,840)	46,840						0		0
<b>(Increase) / Decrease in Year</b>	<b>0</b>	<b>46,840</b>	<b>920</b>	<b>0</b>	<b>(5,055)</b>	<b>0</b>	<b>886</b>	<b>43,591</b>	<b>(355,309)</b>	<b>(311,718)</b>
<b>Balance at 31 March 2023</b>	<b>(10,066)</b>	<b>(55,054)</b>	<b>(2,000)</b>	<b>0</b>	<b>(19,805)</b>	<b>0</b>	<b>(34,949)</b>	<b>(121,874)</b>	<b>(1,288,741)</b>	<b>(1,410,615)</b>

# THE FINANCIAL STATEMENTS

## Balance Sheet

<u>31 March 2023</u>		<u>31 March 2024</u>	
£000		£000	
	<b>Notes</b>		
1,596,175	Property, Plant & Equipment	12	1,460,183
191,920	Heritage Assets	13	192,883
112,364	Investment Properties	14	123,676
9,501	Intangible Assets	15	7,723
26,827	Long Term Investments	17b	25,819
3,415	Long Term Debtors	18	3,130
<b>1,940,202</b>	<b>Non Current Assets</b>		<b>1,813,414</b>
11,394	Short Term Investments	17b	367
823	Stock (Inventories)		782
55,252	Short Term Debtors	18	53,453
15,634	Cash & Cash Equivalents	19	7,969
<b>83,103</b>	<b>Current Assets</b>		<b>62,571</b>
(3,804)	Cash & Cash Equivalents	19	(2,997)
(364)	Deferred Liabilities	38	(364)
(25,774)	Short Term Borrowing	17b	(36,830)
(105,984)	Short Term Creditors	20	(92,310)
(4,863)	Provisions	21	(4,855)
<b>(140,789)</b>	<b>Current Liabilities</b>		<b>(137,356)</b>
(41,118)	Long Term Creditors	17b	(37,142)
(2,970)	Provisions	21	(3,805)
(278,597)	Long Term Borrowing	17b	(277,997)
	Other Long Term Liabilities		
(12,370)	- Deferred Liabilities	38	(12,007)
(38,792)	- Cap. Grants & Conds Receipts in Advance	37a	(32,924)
(98,054)	- Pension Fund Liability	34c	(67,970)
<b>(471,901)</b>	<b>Long Term Liabilities</b>		<b>(431,845)</b>
<b>1,410,615</b>	<b>Net Assets</b>		<b>1,306,784</b>
	<b>Useable Reserves</b>		
(19,805)	Useable Capital Receipts Reserve	10	(34,338)
(34,949)	Cap. Grants & Conds Unapplied	10	(35,731)
(55,054)	Earmarked Revenue Reserves	9	(44,790)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,590)
<b>(121,874)</b>			<b>(127,515)</b>
	<b>Unuseable Reserves</b>		
(435,248)	Revaluation Reserve	22a	(472,341)
1,199	Pooled Fund Adjustment Account	22g	2,206
(960,708)	Capital Adjustment Account	22b	(787,871)
98,054	Pension Reserve	22c	67,970
(5,712)	Collection Fund Adjustment Account	22d	(3,085)
2,582	Accumulated Absences Account	22e	2,760
11,092	Dedicated Schools Grant Adjustment Account	22f	11,092
<b>(1,288,741)</b>			<b>(1,179,269)</b>
<b>(1,410,615)</b>	<b>Total Reserves</b>		<b>(1,306,784)</b>

# THE FINANCIAL STATEMENTS

## Cash Flow Statement

<u>2022/23</u>			<u>2023/24</u>
£000		Notes	£000
(97,153)	Net surplus or (deficit) on the provision of services		(188,146)
88,400	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	263,351
<u>(59,863)</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>(65,577)</u>
<b>(68,616)</b>	<b>Net Cash Flows From Operating Activities</b>		<b>9,628</b>
(23,124)	Net Cash flows from Investing Activities	23 c)	(7,098)
<u>55,722</u>	Net Cash flows from Financing Activities	23 d)	<u>(9,388)</u>
<b>(36,018)</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>(6,858)</b>
47,848	Cash and cash equivalents at the beginning of the reporting period	23 e)	11,830
<u><b>11,830</b></u>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e)	<u><b>4,972</b></u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

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# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

This Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its year end position as at 31 March 2024. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended). These Regulations require them 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 2023/24 (as updated), 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, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council has undertaken cashflow forecasting up to the end of May 2025. The projections for the revenue budget show that the Council has sufficient liquidity over this period. There is no identified need for borrowing to manage the working capital for revenue balances, other than possible temporary borrowing to manage fluctuations in cash flow. The Council does have a significant capital programme for the same period and there was always an intent to borrow, either from the Public Works Loans Board (PWLB) or other sources, to fund this programme. The timing and extent of the capital programme is under regular review. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt and has significant headroom between its forecast gross debt and its capital financing requirement.

In making its going concern assessment, the Council must also consider its budgets and the level of reserves.

The Council assesses its financial position for future years through the medium-term financial planning process. At the Full Council meeting in March 2024, the budget for 2024/25 was agreed relying on £22.7M of new planned savings and £39.3M of assumed Exceptional Financial Support (EFS) from Government (in the form of a capitalisation direction) to achieve a balanced position. The EFS is for one year only and a further budget shortfall of £47.9M was forecast for 2025/26. Revenue reserves (excluding schools' balances) were forecast to be £20.0M at the end of 2024/25, which are considered insufficient to cover the council's risks.

The Council has established a comprehensive Transformation Programme as part of its plans to address the structural deficit and a Transformation and Improvement Plan is a condition of the Government's EFS offer. Alongside this, work is continuing during 2024/25 on bringing forward further proposals to reduce in-year spending and to help close the forecast budget shortfall in 2025/26 and future years.

Although the Council has sufficient liquidity over the specified period, in view of the forecast budget shortfalls and low revenue reserves the Council has assessed that the combination of the risks and uncertainties it faces at this time creates a material uncertainty which casts doubt on its ability to continue to operate planned operational services for the period of 12 months to the end of May 2025.

### 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

- 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.

### 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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) Dedicated Schools Grant Deficit**

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 require particular accounting practices in relation to the treatment of local authorities' schools budget deficits. Where a local authority has a deficit on its schools budget relating to its accounts for financial years 2020/21 through to 2025/26 it must not charge the amount of that deficit to a revenue account. Instead, the deficit is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

### **h) Employee Benefits**

#### *Benefits Payable during Employment*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### *Termination Benefits*

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS,

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.
- Where there is a net defined benefit asset it is measured at the lower of:
  - The surplus in the defined benefit plan, and
  - The asset ceiling.

The change in the net pensions' liability (asset) 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.

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

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

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

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

## **j) Financial instruments**

### *Financial Liabilities*

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

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

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

## 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

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

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

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

## 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.

### 1) Heritage Assets

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

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

#### *Heritage Assets on the Balance Sheet*

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### **m) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost and carried at cost less accumulated depreciation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

### **n) Investment Property**

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

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

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

### **o) Joint Operations**

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

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

### **p) Leases**

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

## **q) Overheads and Support Services**

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

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

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

### *Recognition*

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

### *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

- Community Assets – Depreciated historical cost.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Highways Infrastructure Assets – generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which were deemed at that time to be historical cost.
- Dwellings – Current value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost
- All Other Assets – Current value, determined as the amount that would be paid for the asset in its existing use, (existing use value – EUV).

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

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

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

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

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

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

### *Impairment*

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

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

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

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

### *Depreciation*

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

- 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 Assets –
  - Straight-line allocation up to 40 years on historical assets
  - Straight-line allocation over the following useful economic lives, for additions.

Asset	Estimated Useful Asset Life (Years)
Carriageways	30
Footways and cycle tracks	30
Structures (bridges, tunnels and underpasses)	120
Street lighting	50
Street furniture	30
Traffic management systems	25
Parks & Open Space Infrastructure	30
Coastal Infrastructure	50

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment, Infrastructure 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 (with modified rules in place for 2022/23 and 2023/24). The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or to meet revenue expenditure that has been capitalised in accordance with regulations or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional 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.

In 2022/23 the Council received a rebate on its unitary charge from the refinancing of the Street Lighting PFI arrangement, which was accounted for as a contingent rent adjustment.

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

#### *Provisions*

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *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.

### **u) Reserves**

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

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

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

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

### **w) Schools**

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

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

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

### **y) Fair Value Measurement**

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

## 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.

### **z) Rounding Convention**

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

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2024/25 Code. New or amended standards that are expected to be introduced in the 2024/25 Code that apply from 1 April 2024 are:

- IFRS 16 *Leases* – requiring all leases to be recognised on the Balance Sheet, subject to a de-minimis and exemptions. CIPFA/LASAAC deferred the mandatory requirement to account for leases in accordance with IFRS 16 from 1 April 2022 until 1 April 2024. The Council chose not to adopt IFRS 16 on a voluntary basis for 2022/23 or 2023/24. The mandatory requirements for 2024/25 will include an amendment to IFRS16 for lease liabilities in a sale and leaseback. There are also changes to the transition arrangements for service concession arrangement liabilities.

Adoption of the standard, including the amendments, is not expected to have a material impact on the Council's financial statements.

Other amended standards that apply from 1 April 2024 that have a minor impact on the Code are:

- Amendments to IAS 1 *Presentation of Financial Statements* – providing clarification of the difference between current and non-current liabilities.
- Amendments to IAS 12 *International Tax Reform: Pillar Two Model Rules* – introducing a temporary mandatory exception from accounting for deferred taxes.
- *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* – additional disclosures for supplier finance arrangements.

None of these amendments 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.

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

- **Exceptional Financial Support and Local Government Funding** – The Council's expected level of day-to-day expenditure for 2024/25 is higher than the funding available and Exceptional Financial Support from the Government (in the form of a capitalisation direction) was needed to set a balanced budget for the year. This support is only available for 1 year. There is also a high degree of uncertainty about future levels of funding for local government. The Local Government Finance Settlement agreed in February 2024 only covered 2024/25 and in the 2024 Spring Budget it was noted that the next Spending Review would not take place until after the General Election. Changes to the local government funding system have been deferred to beyond the life of the current parliament. Adult Social Care reforms have been delayed until October 2025 and it is unclear what funding will be made available to implement those reforms. However, the Council has determined that this uncertainty is not 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. Details of the carrying value of Property, Plant and Equipment are provided in Note 12.
- **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. Details of the fair value of Investment Property are provided in Note 14.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools 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 and are included within Other Land and Buildings as part of Property, Plant and Equipment.

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 once transfer agreements have been completed.

The table below illustrates the number and type of schools:

Status as at 31 March 2024	Infant	Junior	Primary	Secondary	Other	Total
Academies	8	5	11	6	2	32
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			5		4	9
Foundation Trust	2	3	14	5	2	26
Free Schools			1			1
<b>Grand Total</b>	<b>10</b>	<b>8</b>	<b>37</b>	<b>12</b>	<b>8</b>	<b>75</b>

- Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant and Equipment), and on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration. The same treatment has been applied to the construction of St Marks all-through school.
- Highways Infrastructure Assets** - The Council has elected to take up a statutory override relating to the accounting for highways infrastructure assets. This provides that for all statements of accounts that are currently open (up to 2025/26), authorities are not required to report gross book value and accumulated depreciation for infrastructure assets, because the information is unlikely to faithfully represent the asset position to the users of the financial statements. In accordance with the temporary relief offered by the changes to the Code on accounting for infrastructure assets, Note 12(e) does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.
- 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. Details of the carrying value of heritage assets that are recognised on the Balance Sheet are provided in Note 13.
- 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. None of the Council's lease arrangements are considered to be finance leases. Note 31 provides further details on where the Council is acting as a lessor.
- 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). None of the Council's contractual arrangements are considered to meet the tests of a lease.
- 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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. Note 17 provides details of the fair value of the fund.
- **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 likelihood of such liabilities or whether a reliable estimate can be made. Note 21 provides further details on provisions and Note 35 for contingent liabilities.
- **Government Grants** – the Council has made judgements about whether government grants are ringfenced or unringfenced based on the conditions attached to the grant. Ringfenced grants are credited to service revenue accounts within the Comprehensive Income and Expenditure Statement (CIES), whereas unringfenced grants are recognised within taxation and non-specific grant income and expenditure within the CIES. Further details of grants received are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

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

The preparation of financial statements requires management to make 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 (PPE)</b>	<p>The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £966M of assets were valued at current value in 2023/24.</p> <p>Property values will vary according to market conditions or, where valued on a depreciated replacement cost basis, land values, construction costs, lifespans and remaining useful economic life will be key variables.</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 pressures on the Council's budget 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 PPE valuations made for the year would change the reported value of PPE by £0.96M.</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 £1.02M if the useful lives were reduced by one year.</p>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Investment Property</b>	<p>The Council values its Investment Property (IP) annually and the fair value at 31 March 2024 was £123.7M.</p> <p>Key assumptions in the valuation of investment property include cash flows, market rents and yield.</p> <p>It is uncertain what impact the current economic climate will have on property values and there is a risk of material changes during the next year.</p>	A 1% change to the IP valuations would change the reported value of IP by £1.2M.	
<b>NDR Appeals Provision</b>	<p>Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals/challenges against business rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2024, the Council's share of which is £6.4M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the checks and challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.</p>	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the Council's share of the NDR appeals provision by £0.6M.	
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2024 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>Effect of changing defined benefit obligation assumptions</b>			
Approximate increase to defined benefit obligation	<b>%</b>	<b>£000</b>	
0.1% decrease in Real Discount Rate	2%	20,996	
1 year increase in member life expectancy	4%	49,614	
0.1% increase in the Salary Increase Rate	0%	999	
0.1% increase in the Pension Increase Rate (CPI)	2%	20,387	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the directorate structure in place during 2023/24. Prior year comparatives have been updated to reflect the directorate structure. In the EFA the £47.760M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £49.393M deficit for Adjustments between the Funding and Accounting Basis and £97.153M deficit for Net Expenditure in the CIES have not changed as a result of the 2022/23 restatement. In the CIES the £820.925M Expenditure, £723.772M Income and £97.153M Deficit on the Provision of Services have not changed as a result of the 2022/23 restatement.

No other prior period adjustments have been made.

### 6. Material 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.

The significant reduction in the valuation of Council dwellings is predominantly due to a wider, downward movement in domestic property valuations over the course of 2023/24. The domestic property price indices demonstrate a significant reduction in domestic property valuations nationally, but particularly in London and the South-East, which saw an overall reduction in domestic property valuation in excess of 5% between February 2023 and February 2024. This is being driven by increases in the cost of mortgage borrowing, which is reducing the affordability of mortgages and consequently a reduction in demand and in prices for houses.

#### Asset Development and Disposal Programme

The Council initiated an asset development and disposal programme in 2023/24 with the aim to drive Southampton's growth through the disposal, retention, or development of the Council's corporate, operational and investment property portfolio. Capital receipts secured from the disposal of assets will be used to fund transformation activity across the Council and potentially to fund expenditure which is capitalised using a capitalisation direction. The first property to be disposed of under this programme was One Guildhall Square, for which the sale proceeds were £12.75M (net of VAT).

### 7. Events after the Reporting Period

The draft statement of accounts was authorised for issue by the Section 151 Officer on the 28 May 2024. 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 2024, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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** – adjustments 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 2023/24

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Children & Learning	9,211	547	(6,217)	3,541
Corporate Services	2,890	462	(1,419)	1,933
Place	15,796	652	407	16,855
Strategy & Performance and CEO	0	98	(152)	(54)
Wellbeing & Housing	2,929	403	(8,497)	(5,165)
Housing Revenue Account (HRA)	0	513	(518)	(5)
Other Income & Expenditure	0	0	1,615	1,615
<b>Other items of expenditure and income:</b>				
Revaluation & Impairment of General Fund Assets	6,343	0	0	6,343
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	155,392	0	0	155,392
<b>Cost of Services</b>	<b>192,561</b>	<b>2,675</b>	<b>(14,781)</b>	<b>180,455</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(25,248)</b>	<b>4,671</b>	<b>18,593</b>	<b>(1,984)</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	<b>167,313</b>	<b>7,346</b>	<b>3,812</b>	<b>178,471</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Adjustments between Funding and Accounting Basis 2022/23 Restated</b>				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pension Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Children & Learning	6,716	6,298	(3,886)	9,128
Corporate Services	1,455	5,423	(114)	6,764
Place	13,814	7,784	1,396	22,994
Strategy & Performance and CEO	0	1,108	(11)	1,097
Wellbeing & Housing	2,443	4,735	(1,096)	6,082
Housing Revenue Account (HRA)	0	5,777	(518)	5,259
Other Income & Expenditure	0	0	547	547
<b>Other items of expenditure and income:</b>				
Revaluation & Impairment of General Fund Assets	3,143	0	0	3,143
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	12,598	0	0	12,598
<b>Cost of Services</b>	<b>40,169</b>	<b>31,125</b>	<b>(3,682)</b>	<b>67,612</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(25,650)</b>	<b>11,061</b>	<b>(3,630)</b>	<b>(18,219)</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	<b>14,519</b>	<b>42,186</b>	<b>(7,312)</b>	<b>49,393</b>

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

<b>2022/23</b>	<b>Analysis of income and expenditure by nature</b>	<b>2023/24</b>
<b>£000</b>		<b>£000</b>
	<b>Income</b>	
(129,148)	Revenue from contracts with service recipients	(137,212)
(412,231)	Government grants and contributions	(439,924)
(10,995)	Other service income	(14,410)
(6,890)	Income in relation to investment properties	(6,841)
2,828	Interest and investment income	(2,412)
(155,778)	Income from council tax and non-domestic rates	(162,029)
(11,558)	Proceeds from the disposal of non-current assets	(18,514)
<b>(723,772)</b>	<b>Total Income</b>	<b>(781,342)</b>
	<b>Expenditure</b>	
312,446	Employee benefits expenses	302,416
389,079	Other service expenses	392,128
67,741	Depreciation, amortisation, impairments and revaluations	202,062
15,543	Interest payable and similar charges	18,349
11,061	Net interest expense on the pension defined liability	4,671
25,055	Costs from the disposal of non-current assets	49,862
<b>820,925</b>	<b>Total Expenditure</b>	<b>969,488</b>
<b>97,153</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>188,146</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Analysis of service income

<b>Analysis of Service Income 2023/24</b>	<b>Government Grants and Contributions</b>	<b>Revenue from Contracts with Service Recipients</b>	<b>Other Service Income</b>	<b>Total Service Income</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Children & Learning	(210,624)	(2,116)	(392)	(213,132)
Corporate Services	(66,170)	(2,333)	0	(68,503)
Place	(18,998)	(28,435)	(9,910)	(57,343)
Strategy & Performance and CEO	(697)	(520)	0	(1,217)
Wellbeing & Housing	(75,052)	(16,857)	(1,886)	(93,795)
Housing Revenue Account (HRA)	0	(86,842)	(2,222)	(89,064)
Other Income & Expenditure	0	(109)	0	(109)
	<b>(371,541)</b>	<b>(137,212)</b>	<b>(14,410)</b>	<b>(523,163)</b>

<b>Analysis of Service Income 2022/23 Restated</b>	<b>Government Grants and Contributions</b>	<b>Revenue from Contracts with Service Recipients</b>	<b>Other Service Income</b>	<b>Total Service Income</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Children & Learning	(185,163)	(1,999)	(68)	(187,230)
Corporate Services	(65,034)	(1,905)	0	(66,939)
Place	(21,998)	(27,586)	(8,772)	(58,356)
Strategy & Performance and CEO	(36)	(1,414)	0	(1,450)
Wellbeing & Housing	(54,710)	(13,738)	(78)	(68,526)
Housing Revenue Account (HRA)	0	(82,375)	(2,077)	(84,452)
Other Income & Expenditure	0	(131)	0	(131)
	<b>(326,941)</b>	<b>(129,148)</b>	<b>(10,995)</b>	<b>(467,084)</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>2023</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2023/24</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2023/24</u>	<u>Balance</u> <u>31 March</u> <u>2024</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Earmarked Reserves</b>				
<b>General Fund</b>				
Medium Term Financial Risk Reserve	(28,352)		18,632	(9,720)
Organisational Redesign Reserve		(2,500)		(2,500)
Transformation & Improvement Reserve		(4,663)		(4,663)
Revenue Grant Reserve - General	(5,429)		1,223	(4,206)
Investment Risk Reserve		(800)		(800)
Directorate Carry Forwards Reserve	(1,339)		1,339	0
PFI Sinking Fund	(4,375)		30	(4,345)
Insurance Reserve	(1,996)	(202)		(2,198)
On Street Parking	(3,214)		734	(2,480)
DSG Reserve	(992)	(2,995)		(3,987)
General Fund Contributions to Capital	(934)	(66)		(1,000)
Social Care Demand Risk Reserve		(2,000)		(2,000)
Other Reserves	(2,963)		278	(2,685)
	<u>(49,594)</u>	<u>(13,226)</u>	<u>22,236</u>	<u>(40,584)</u>
<b>Schools</b>				
School Balances	(5,460)		1,254	(4,206)
	<u>(55,054)</u>	<u>(13,226)</u>	<u>23,490</u>	<u>(44,790)</u>

The purposes 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 local government funding system, volatility of local taxation, demand pressures and the potential for planned savings to be delayed.

### Organisational Redesign 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.

### Transformation & Improvement Reserve

Monies set aside to fund the Transformation Programme and other improvement projects.

### Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years.

### Investment Risk Reserve

The reserve holds monies to provide for a potential loss on the valuation of the Council's pooled property fund investment when the statutory override on charging valuation reductions (or increases) to the General Fund ends in 2025/26.

### Directorate Carry Forward Reserve

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **PFI Sinking Fund**

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

### **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.

### **DSG Reserve**

This reserve holds surpluses on the Dedicated Schools Grant generated in 2022/23 and 2023/24. The cumulative deficit on the Dedicated Schools Grant is held separately in the Dedicated Schools Grant Adjustment Account (an unusable reserve) in accordance with legislation. See further details in Note 22 Unusable Reserves.

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

This reserve holds monies to finance the capital programme.

### **Social Care Demand Risk Reserve**

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

## 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.

2023/24	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	(3,673)							(3,673)	3,673	0
Depreciation and revaluation of Non Current Assets	(37,196)		(173,359)					(210,555)	210,555	0
Movement on Market Value of Investment Properties	9,953		2,212					12,165	(12,165)	0
Capital Grants and Contributions Applied	43,123		2,894					46,017	(46,017)	0
Capital Grants and Contributions Unapplied	782						(782)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(18,953)							(18,953)	18,953	0
Holiday pay transferred to the Accumulated Absences Account	(178)							(178)	178	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(1,007)							(1,007)	1,007	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(29,371)		(6,969)					(36,340)	36,340	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	23,434		5,560					28,994	(28,994)	0
Statutory Provision for the Financing of Capital Investment	12,345		0					12,345	(12,345)	0
Capital expenditure charged in-year to the GF and HRA Balances	2,000		6,001					8,001	(8,001)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	(2,627)							(2,627)	2,627	0
Transfers to/(from) Major Repairs Reserves			17,967			(17,967)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						17,967		17,967	(17,967)	0
Capital Receipts in Year	12,813		5,702		(18,515)			0	0	0
Non-current Asset Disposals	(48,256)		(1,606)					(49,862)	49,862	0
Capital Receipts Financing of New Capital Expenditure					4,204			4,204	(4,204)	0
Adjustment for repayment/write-off of loans	(63)				(222)			(285)	285	0
	(36,874)	0	(141,598)	0	(14,533)	0	(782)	(193,787)	193,787	0

## NOTES TO THE CORE FINANCIAL STATEMENTS

2022/23	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	(2,635)							(2,635)	2,635	0
Depreciation and revaluation of Non Current Assets	(29,563)		(33,361)					(62,924)	62,924	0
Movement on Market Value of Investment Properties	(2,224)		42					(2,182)	2,182	0
Capital Grants and Contributions Applied	48,101		898					48,999	(48,999)	0
Capital Grants and Contributions Unapplied	(886)						886	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(15,067)							(15,067)	15,067	0
Holiday pay transferred to the Accumulated Absences Account	645							645	(645)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(5,093)							(5,093)	5,093	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(59,889)		(13,649)					(73,538)	73,538	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	25,533		5,819					31,352	(31,352)	0
Statutory Provision for the Financing of Capital Investment	11,120		0					11,120	(11,120)	0
Capital expenditure charged in-year to the GF and HRA Balances	0		1,790					1,790	(1,790)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	11,760							11,760	(11,760)	0
Transfers to/(from) Major Repairs Reserve			20,763			(20,763)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						20,763		20,763	(20,763)	0
Capital Receipts in Year	247		11,311		(11,558)			0	0	0
Non-current Asset Disposals	(20,234)		(4,821)					(25,055)	25,055	0
Capital Receipts Financing of New Capital Expenditure					6,583			6,583	(6,583)	0
Adjustment for repayment of loans					(80)			(80)	80	0
	<b>(38,185)</b>	<b>0</b>	<b>(11,208)</b>	<b>0</b>	<b>(5,055)</b>	<b>0</b>	<b>886</b>	<b>(53,562)</b>	<b>53,562</b>	<b>0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Interest Payable and Receivable

<b>Interest Payable and Similar Charges</b>		
<u>2022/23</u>		<u>2023/24</u>
£000		£000
7,772	Interest on External Loans	9,482
4,686	PFI Schemes	5,602
422	Payments to HCC in respect of Transferred Debt	626
429	Other	623
2,234	Movement of impairment allowance & debt write-offs	2,016
<u>15,543</u>		<u>18,349</u>

<b>Interest and Investment Income</b>		
<u>2022/23</u>		<u>2023/24</u>
£000		£000
(2,265)	Investments	(3,418)
5,093	(Gain) /Loss on Financial Instruments	1,006
<u>2,828</u>		<u>(2,412)</u>

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

PPE are shown at a current net book value of £1,460M (2022/23 £1,596M), a decrease of £136M (2022/23 £32M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2024.

#### 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 120 years – see note 1r) for further details.

#### b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. Valuations were contracted out for 2023/24 and were carried out by Bruton Knowles. 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

changes to asset valuations, disposals, new acquisitions and enhancements. Movement in Infrastructure Assets is shown separately in note e).

### c) Disposals

For 2023/24 there was an overall loss of £31.5M (2022/23 - £13.5M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of the transfer of a voluntary controlled school to the Church of England, offset by a £6.1M gain relating to the Housing Revenue Account.

### d) Current Value

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

### e) Infrastructure Assets

In accordance with the temporary relief offered by the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The Net Book Value (NBV) of Infrastructure Assets at 31 March 2024 was £301.7M (£279.5M at 31 March 2023). Movements in the NBV are shown below.

<b>Movement on Infrastructure Assets</b>	<b><u>2022/23</u></b>	<b><u>2023/24</u></b>
	<b>£000</b>	<b>£000</b>
<b>Balance at start of year</b>	<b>256,929</b>	<b>279,538</b>
Additions	29,278	29,524
Depreciation in Year	(6,669)	(7,376)
<b>Balance at End of Year</b>	<b><u>279,538</u></b>	<b><u>301,686</u></b>

<b>Reconciling Note for PPE</b>	<b><u>2022/23</u></b>	<b><u>2023/24</u></b>
	<b>£000</b>	<b>£000</b>
Infrastructure Assets	279,538	301,686
Other PPE Assets	1,316,637	1,158,497
<b>Balance at End of Year</b>	<b><u>1,596,175</u></b>	<b><u>1,460,183</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The authority has determined in accordance with Regulation [30M England] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be de-recognised for infrastructure assets when there is replacement expenditure is nil.

<b>Movement in Property, Plant &amp; Equipment (PPE)</b>								
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</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>Cost or Valuation</b>								
At 1 April 2023	773,872	477,649	73,945	2,769	1,442	50,003	1,379,680	91,390
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0
	773,872	477,649	73,945	2,769	1,442	50,003	1,379,680	91,390
Additions	35,306	4,490	4,128	0	0	3,061	46,985	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	29,398	0	0	0	0	29,398	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(175,330)	(11,016)	0	0	1,569	0	(184,777)	2,351
Derecognition-Disposals	(1,607)	(11,869)	(2,495)	0	0	(33,509)	(49,480)	
Other Reclassifications	10,801	(238)	0	238	0	(10,801)	0	
<b>At 31 March 2024</b>	<b>643,042</b>	<b>488,414</b>	<b>75,578</b>	<b>3,007</b>	<b>3,011</b>	<b>8,754</b>	<b>1,221,806</b>	<b>93,741</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2023	(20,308)	(12,065)	(30,263)	(361)	(46)	0	(63,043)	(12,483)
Adjustment to Previous Year Charges							0	0
	(20,308)	(12,065)	(30,263)	(361)	(46)	0	(63,043)	(12,483)
Depreciation in Year	(17,257)	(18,684)	(5,481)	(18)	(2)	0	(41,442)	(4,632)
Written out to the Revaluation Reserve	0	17,487	0	0	0	0	17,487	
Written out to the (Surplus)/ Deficit on the Provision of Services	20,308	2,733	0	0	0	0	23,041	6,151
Derecognition-Disposals	0	648	0	0	0	0	648	
<b>At 31 March 2024</b>	<b>(17,257)</b>	<b>(9,881)</b>	<b>(35,744)</b>	<b>(379)</b>	<b>(48)</b>	<b>0</b>	<b>(63,309)</b>	<b>(10,964)</b>
<b>Net Book Value</b>								
<b>At 31 March 2024</b>	<b>625,785</b>	<b>478,533</b>	<b>39,834</b>	<b>2,628</b>	<b>2,963</b>	<b>8,754</b>	<b>1,158,497</b>	<b>82,777</b>
<b>At 31 March 2023</b>	<b>753,564</b>	<b>465,584</b>	<b>43,682</b>	<b>2,408</b>	<b>1,396</b>	<b>50,003</b>	<b>1,316,637</b>	<b>78,907</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	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>			39,834	301,686	2,628		8,754	<b>352,902</b>
<b>Valued at Fair Value in:</b>								
2023/24	625,785	338,207				1,800		<b>965,792</b>
2022/23		113,025				0		<b>113,025</b>
2021/22		11,140				0		<b>11,140</b>
2020/21		8,135				64		<b>8,199</b>
2019/20		7,231				1,099		<b>8,330</b>
Deminimus		795				0		<b>795</b>
<b>Net Book Value as at 31 March 2024</b>	<b>625,785</b>	<b>478,533</b>	<b>39,834</b>	<b>301,686</b>	<b>2,628</b>	<b>2,963</b>	<b>8,754</b>	<b>1,460,183</b>

<b>Movement in Property, Plant &amp; Equipment (PPE) 2022/23</b>								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1 April 2022	773,194	469,170	65,369	2,889	1,442	50,119	<b>1,362,183</b>	79,438
Adjustment to Previous Year Charges	0	0	0	0	0	0	<b>0</b>	0
	773,194	469,170	65,369	2,889	1,442	50,119	<b>1,362,183</b>	79,438
Additions	32,804	3,719	9,204	0	0	4,227	<b>49,954</b>	12
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	30,031	0	0	0	0	<b>30,031</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(31,649)	(5,162)	0	0	0	0	<b>(36,811)</b>	11,940
Derecognition-Disposals	(4,820)	(20,229)	(628)	0	0	0	<b>(25,677)</b>	
Other Reclassifications	4,343	120	0	(120)	0	(4,343)	<b>0</b>	
<b>At 31 March 2023</b>	<b>773,872</b>	<b>477,649</b>	<b>73,945</b>	<b>2,769</b>	<b>1,442</b>	<b>50,003</b>	<b>1,379,680</b>	<b>91,390</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2022	(19,153)	(9,909)	(25,876)	(349)	(32)	0	<b>(55,319)</b>	(10,770)
Adjustment to Previous Year Charges							<b>0</b>	0
	(19,153)	(9,909)	(25,876)	(349)	(32)	0	<b>(55,319)</b>	(10,770)
Depreciation in Year	(20,308)	(15,325)	(4,850)	(17)	(14)	0	<b>(40,514)</b>	(3,635)
Written out to the Revaluation Reserve	0	10,963	0	0	0	0	<b>10,963</b>	
Written out to the (Surplus)/ Deficit on the Provision of Services	19,153	1,917	0	0	0	0	<b>21,070</b>	1,922
Derecognition-Disposals	0	294	463	0	0	0	<b>757</b>	0
Other Reclassifications	0	(5)	0	5	0	0	<b>0</b>	0
<b>At 31 March 2023</b>	<b>(20,308)</b>	<b>(12,065)</b>	<b>(30,263)</b>	<b>(361)</b>	<b>(46)</b>	<b>0</b>	<b>(63,043)</b>	<b>(12,483)</b>
<b>Net Book Value</b>								
<b>At 31 March 2023</b>	<b>753,564</b>	<b>465,584</b>	<b>43,682</b>	<b>2,408</b>	<b>1,396</b>	<b>50,003</b>	<b>1,316,637</b>	<b>78,907</b>
<b>At 31 March 2022</b>	<b>754,041</b>	<b>459,261</b>	<b>39,493</b>	<b>2,540</b>	<b>1,410</b>	<b>50,119</b>	<b>1,306,864</b>	<b>68,668</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capital Commitments

At 31 March 2024, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2024/25 and future years budgeted to cost £73.1M. Similar commitments at 31 March 2023 were £77.5M. The major commitments are:

	<u>2022/23</u>	<u>2023/24</u>
	<u>£000</u>	<u>£000</u>
HRA - Supporting Communities	205	265
HRA - Improving Quality of Homes	5,091	5,121
HRA - Supporting Independent Living	7,149	9,105
HRA - Making Homes Safe	33,903	43,169
HRA - Making Homes Energy Efficient	8,028	9,127
HRA - Regeneration	0	455
Southampton All Through School	2,138	395
Chamberlayne School	2,267	0
School Condition Work	2,271	137
Newland Hearing Centre	1,426	60
SEND Expansion	0	1,128
Desktop Refresh	530	127
Electric & Fleet Vehicles	4,036	75
Corporate Council Buildings	1,145	0
Public Sector Decarbonisation Scheme	799	0
Heritage Asset Investment	1,177	765
Outdoor Sports Centre Improvements	239	233
Future Transport Zone	5,084	2,458
Other Various Minor Commitments	2,011	488
<b>Total</b>	<b><u>77,499</u></b>	<b><u>73,108</u></b>

### 13. Heritage Assets

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Reconciliation of the Carrying Value of Heritage Assets Held by the Council</b>			
	<b>Works of Art</b>	<b>Historic Buildings and Ancient Monuments</b>	<b>Total Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>			
01 April 2022	190,000	1,303	191,303
Additions		646	646
Adj for depreciation previously written out			0
<b>31 March 2023</b>	<b>190,000</b>	<b>1,949</b>	<b>191,949</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2022	0	(29)	(29)
<b>31 March 2023</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2023</b>	<b>190,000</b>	<b>1,920</b>	<b>191,920</b>
<b>31 March 2022</b>	<b>190,000</b>	<b>1,274</b>	<b>191,274</b>
<b>Cost or Valuation</b>			
01 April 2023	190,000	1,949	191,949
Additions		963	963
Adj for depreciation previously written out			0
<b>31 March 2024</b>	<b>190,000</b>	<b>2,912</b>	<b>192,912</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2023	0	(29)	(29)
Depreciation		0	0
<b>31 March 2024</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2024</b>	<b>190,000</b>	<b>2,883</b>	<b>192,883</b>
<b>31 March 2023</b>	<b>190,000</b>	<b>1,920</b>	<b>191,920</b>

### 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:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2022/23</u> £000		<u>2023/24</u> £000
(6,890)	Rental Income	(6,841)
521	Operating Expenditure	555
<b>(6,369)</b>	<b>Net (Income) / Expenditure</b>	<b>(6,286)</b>
2,182	Net (Gains) / Losses from fair value adjustments	(12,165)
<b><u>(4,187)</u></b>	<b>Total Net (Income) / Expenditure</b>	<b><u>(18,451)</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>2022/23</u> £000	<u>2023/24</u> £000
<b>Balance at start of year</b>	<b>114,136</b>	<b>112,364</b>
Additions:		
Purchases	544	177
Subsequent Expenditure	0	0
Disposals	(134)	(1,030)
Net gains / (losses) from fair value adjustments	(2,182)	12,165
<b>Balance at End of Year</b>	<b><u>112,364</u></b>	<b><u>123,676</u></b>

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

### 15. Intangible Assets

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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>Purchased Software</u></b>		
	<b><u>31 March</u></b>	<b><u>31 March</u></b>
	<b><u>2023</u></b>	<b><u>2024</u></b>
	<b>£000</b>	<b>£000</b>
Gross carrying amount	16,854	17,655
Derecognition of Assets fully amortised	<u>(2,527)</u>	<u>(324)</u>
	<b>14,327</b>	<b>17,331</b>
Accumulated amortisation	<u>(5,519)</u>	<u>(7,830)</u>
<b>Net Carrying Amount at Start of the Year</b>	<b>8,808</b>	<b>9,501</b>
Purchases	3,328	1,895
Amortisation for the period	<u>(2,635)</u>	<u>(3,673)</u>
<b>Net Carrying Amount at End of the Year</b>	<b><u>9,501</u></b>	<b><u>7,723</u></b>

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

As at 31 March 2024 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. Proposals for asset sales are likely to come forward in the next 12 months as part of the Asset Development and Disposal Programme.

## 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 flows) 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>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</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	(278,597)	(277,997)	(24,600)	(34,600)	(303,197)	(312,597)
- Accrued interest			(1,174)	(2,230)	(1,174)	(2,230)
<b>Total Borrowing</b>	<b>(278,597)</b>	<b>(277,997)</b>	<b>(25,774)</b>	<b>(36,830)</b>	<b>(304,371)</b>	<b>(314,827)</b>
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(3,804)	(2,997)	(3,804)	(2,997)
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>(3,804)</b>	<b>(2,997)</b>	<b>(3,804)</b>	<b>(2,997)</b>
<i>Liabilities at amortised cost:</i>						
- Finance leases						0
- PFI arrangements	(41,081)	(37,105)			(41,081)	(37,105)
- Other long-term creditors	(37)	(37)			(37)	(37)
<b>Total Long-term Creditors</b>	<b>(41,118)</b>	<b>(37,142)</b>	<b>0</b>	<b>0</b>	<b>(41,118)</b>	<b>(37,142)</b>
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,294)	(3,976)	(3,294)	(3,976)
- Trade payables			(33,236)	(34,961)	(33,236)	(34,961)
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>(36,530)</b>	<b>(38,937)</b>	<b>(36,530)</b>	<b>(38,937)</b>
<b>Total Financial Liabilities</b>	<b>(319,715)</b>	<b>(315,139)</b>	<b>(66,108)</b>	<b>(78,764)</b>	<b>(385,823)</b>	<b>(393,903)</b>

<b>Financial Assets</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>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</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	1,026	1,025	11,060	0	12,086	1,025
- Accrued interest			53	53	53	53
- Fair value adjustments						
<i>At fair value through profit &amp; loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	281	314	281	314
- Fair value adjustments	(1,199)	(2,206)			(1,199)	(2,206)
<b>Total Investments</b>	<b>26,827</b>	<b>25,819</b>	<b>11,394</b>	<b>367</b>	<b>38,221</b>	<b>26,186</b>
<i>Loans and Receivables</i>						
- Cash						
- Cash equivalent at amortised cost						
<i>At amortised cost</i>						
- Principal			144	139	144	139
<i>At fair value through profit &amp; loss</i>						
- Principal			15,490	7,830	15,490	7,830
- Accrued interest						0
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>15,634</b>	<b>7,969</b>	<b>15,634</b>	<b>7,969</b>
<i>At amortised costs</i>						
- Trade receivables			29,393	26,757	29,393	26,757
- Loans made for service purposes	3,415	3,130	0	0	3,415	3,130
<b>Included in Debtors</b>	<b>3,415</b>	<b>3,130</b>	<b>29,393</b>	<b>26,757</b>	<b>32,808</b>	<b>29,887</b>
<b>Total Financial Assets</b>	<b>30,242</b>	<b>28,949</b>	<b>56,421</b>	<b>35,093</b>	<b>86,663</b>	<b>64,042</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 includes accrued interest on long term liabilities and investments that is payable/receivable in 2024/25.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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:

	2022/23	2023/24				
		Total £000	Financial Liabilities	Financial Assets		Total £000
			Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	13,309	16,333			16,333	
Gains/losses on derecognition	0	0			0	
Impairment Losses	2,234		2,016		2,016	
<b>Interest Payable and Similar Charges</b>	<b>15,543</b>	<b>16,333</b>	<b>2,016</b>	<b>0</b>	<b>18,349</b>	
Interest income	(2,265)		(2,134)	(1,285)	(3,419)	
Gains/losses on derecognition	5,093			1,007	1,007	
<b>Interest and Investment Income</b>	<b>2,828</b>	<b>0</b>	<b>(2,134)</b>	<b>(278)</b>	<b>(2,412)</b>	
<b>Net Gain / (Loss) for the Year</b>	<b>18,371</b>	<b>16,333</b>	<b>(118)</b>	<b>(278)</b>	<b>15,937</b>	

### e) Financial Instruments – Fair Values

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

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2024, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2024.
- 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

- **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 lower than their balance sheet carrying amount. This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower 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>2023</u>	<u>2023</u>			<u>2024</u>	<u>2024</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<b><u>Financial Liabilities held at amortised cost</u></b>					
(289,197)	(236,519)	Public Works Loans	2	(288,597)	(241,827)
(9,000)	(9,704)	LOBO Loans	2	(4,000)	(4,357)
(44,375)	(56,768)	PFI/Finance Lease Liabilities	2	(41,081)	(52,747)
<b>(342,572)</b>	<b>(302,991)</b>			<b>(333,678)</b>	<b>(298,931)</b>
<b><u>Liabilities for which Fair Value is not disclosed*</u></b>					
(37)		Other Long Term Creditors		(37)	
(6,174)		Short Term borrowing		(22,230)	
(3,804)		Bank Overdraft		(2,997)	
(33,236)		Trade Payables (Creditors)		(34,961)	
<b>(43,251)</b>				<b>(60,225)</b>	
<b>(385,823)</b>		<b>Total Financial Liabilities</b>		<b>(393,903)</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 higher than the balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance</u>	<u>Fair Value</u>		<u>Fair Value</u>	<u>Balance</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2023</u>	<u>2023</u>			<u>2024</u>	<u>2024</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>					
15,490	15,490	Money Market Funds	1	7,830	7,830
25,801	25,801	Property Funds	2	24,794	24,794
<b>41,291</b>	<b>41,291</b>			<b>32,624</b>	<b>32,624</b>
<b>Financial Assets held at Amortised Costs</b>					
1,006	1,074	Corporate, Covered and Government Bonds	1	1,005	1,058
<b>1,006</b>	<b>1,074</b>			<b>1,005</b>	<b>1,058</b>
<b>Assets for which Fair Value is not disclosed**</b>					
<i>Recorded on balance sheet as:</i>					
3,415		Long Term Debtors		3,130	
11,394		Short Term investments		367	
20		Shares in unlisted companies		20	
144		Cash and Cash Equivalents		139	
29,393		Trade Receivables (Debtors)		26,757	
0		Other Debtors		0	
<b>44,366</b>				<b>30,413</b>	
<b>86,663</b>		<b>Total Financial Assets</b>		<b>64,042</b>	

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

### f) Financial Instruments – Risks

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

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

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

The main risks covered are:

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### g) Credit Risk

#### Treasury Investments

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

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

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £34.1M (2022/23 £53.9M) 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 2024 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 13 February 2023. The Treasury Strategy can be seen as Item 27 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2023/24 to 2026/27](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2024 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2023 £000	2024 £000	2023 £000	2024 £000
AAA	1,006	1,005	53	53
AA+			0	0
AA			0	0
AA-			11,060	0
A+			10,080	7,820
A			5,554	149
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	25,801	24,794	281	314
<b>Total Investments</b>	<b>26,827</b>	<b>25,819</b>	<b>27,028</b>	<b>8,336</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 2024 met the Council's minimum credit rating criteria of A or above.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2024 (and 31 March 2023) falls below the Council's de-minimis level of £0.01M so no offset was made.

### Trade Receivables

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

<b><u>Trade Debtors and Impairment Allowance</u></b>		
	<b><u>Outstanding</u></b> <b><u>31 March 2023</u></b> <b>£000</b>	<b><u>Outstanding</u></b> <b><u>31 March 2024</u></b> <b>£000</b>
Trade Debtors	29,393	<b>26,757</b>
Trade Debtors Impairment Allowance	(8,659)	<b>(9,612)</b>

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 (£2.637M)
- Housing tenants (£6.649M)
- Other service recipients (£0.326M)

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

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

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

<b><u>2022/23</u></b> <b>£000</b>		<b><u>2023/24</u></b> <b>£000</b>
	<b><u>Trade debtors, analysed by age</u></b>	
8,901	Less than two months	6,368
6,289	Two to six months	5,506
4,966	Six months to one year	5,195
9,237	More than one year	9,688
<b><u>29,393</u></b>		<b><u>26,757</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### h) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 50% 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 2024 was as follows:

<u>Outstanding</u> <u>31 March 2023</u>	<u>% of Total</u> <u>Portfolio</u>	<b>Total Financial Liabilities</b>	<u>Outstanding</u> <u>31 March 2024</u>	<u>% of Total</u> <u>Portfolio</u>
<b>£000</b>	<b>%</b>		<b>£000</b>	<b>%</b>
(289,197)	75	Public Works Loan Board	(288,597)	73
(14,000)	3	Other Financial Institutions (borrowing)	(24,000)	6
(33,236)	9	Trade Payables	(34,961)	9
(49,390)	13	Other Financial Institutions	(46,345)	12
<b>(385,823)</b>	<b>100</b>		<b>(393,903)</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>				
(57,108)	15	Less than 1 Year	(74,764)	19
(14,576)	4	Between 1 and 2 years	(14,085)	4
(42,256)	11	Between 2 and 5 years	(43,374)	11
(74,119)	19	Between 5 and 10 years	(79,610)	20
(38,917)	10	Between 10 and 20 years	(33,223)	8
(149,847)	39	Between 20 and 40 years	(144,847)	37
0	0	Over 40	0	0
(9,000)	2	Uncertain Date**	(4,000)	1
<b>(385,823)</b>	<b>100</b>		<b>(393,903)</b>	<b>100</b>

\*Please note that the authority has £4M 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. 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:

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<b>Source</b>	<b><u>Outstanding</u></b>	<b><u>Outstanding</u></b>
	<b><u>31 March 2023</u></b>	<b><u>31 March 2024</u></b>
	<b>£000</b>	<b>£000</b>
Public Works Loan Board	(289,197)	(288,597)
Market Debt	(9,000)	(4,000)
Temporary Borrowing	(5,000)	(20,000)
PFI Liabilities	(44,375)	(41,081)
Other long-term Creditors	(37)	(37)
<b>Total</b>	<b><u>(347,609)</u></b>	<b><u>(353,715)</u></b>

### i) Market Risk

#### Interest Rate Risk

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

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

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2024 £348.3M (109%) (2022/23 £326.1M (111%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £28.8M (2022/23 £32.4M) 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.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

2022/23		2023/24
<b>£000</b>		<b>£000</b>
752	Increase in interest payable on variable rate borrowings	1,869
(200)	Increase in interest payable on variable rate investments	(200)
1,204	Decrease in fair value of investments held at FVPL (assumes 5%)	1,084
<u>1,756</u>	<b>Impact on the Provision of Services (Surplus) / Deficit</b>	<u>2,753</u>
308	Share of overall impact debited/credited to HRA	301
(37,580)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost ( <i>no impact on Comprehensive Income and Expenditure</i> )	(51,942)

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

The Council has £4M (2023: £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. The likelihood of the lender increasing the rate increases with the rise in market interest rates during the year.

### Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2024 the Council had £27M (2022/23 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £1.0M (2022/23 £5.1M decrease), taking the fair value from £25.8M to £24.8M. A 5% fall in commercial property prices would result in a £1.1M (2022/23 £1.2M) 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 2024.

<u>31 March</u>		<u>31 March</u>
<u>2023</u>		<u>2024</u>
<u>£000</u>		<u>£000</u>
3,415	Housing Improvement Loans	3,130
<u>3,415</u>		<u>3,130</u>

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2024.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>31 March</u> <u>2023</u>	<u>Debtors</u>	<u>31 March</u> <u>2024</u>
<u>£000</u>		<u>£000</u>
9,524	Central Government	8,198
4,421	Other Local Authorities	5,031
2,245	NHS Bodies	5,545
67,963	Other Entities and Individuals	62,253
(28,902)	Debtors Impairment Allowance	(27,574)
1	Public Corporations and Trading Funds	0
<u>55,252</u>	<b>Total Debtors</b>	<u>53,453</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 shows that the bank accounts were overdrawn by £3.0M (2022/23 £3.8M overdrawn), the Council's actual position at the Bank was a credit balance of £0.6M at 31 March 2024 (£0.6M credit at 31 March 2023). 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>2023</u>		<u>31 March</u> <u>2024</u>
<u>£000</u>		<u>£000</u>
(3,804)	Bank Accounts	(2,997)
(3,804)		(2,997)
15,490	Money Market Funds	7,830
0	Call Accounts	0
144	Petty Cash	139
<u>15,634</u>		<u>7,969</u>
<u>11,830</u>		<u>4,972</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2024.

<u>Creditors</u>		<u>31 March</u> <u>2024</u> <u>£000</u>
<u>31 March</u> <u>2023</u> <u>£000</u>		
39,637	Central Government	26,198
4,333	Other Local Authorities	5,489
3,276	NHS Bodies	2,568
58,738	Other Entities and Individuals	58,055
<u>105,984</u>	<b>Total Creditors</b>	<u>92,310</u>

The £13.4M reduction in central government creditors relates primarily to a reduction in amounts repayable for government funded schemes that were paid on account, including business rates relief (£7.3M), energy support schemes (£1.8M) and support for businesses during the COVID-19 pandemic (£0.9M).

## 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 2023</u> <u>£000</u>	<u>Additional</u> <u>Provisions</u> <u>Made in Year</u> <u>£000</u>	<u>Amounts</u> <u>Used in Year</u> <u>£000</u>	<u>Unused</u> <u>amounts</u> <u>reversed in</u> <u>year</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2024</u> <u>£000</u>
<u>General Fund</u>					
NDR Appeals Provision	5,257	14,344	(13,251)		6,350
General Insurance Funds	2,400		(396)		2,004
Other Provisions	176	130			306
<b>Total</b>	<u>7,833</u>	<u>14,474</u>	<u>(13,647)</u>	<u>0</u>	<u>8,660</u>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u> <u>Due within 1</u> <u>Year</u> <u>£000</u>	<u>Due between</u> <u>2 to 5 years</u> <u>£000</u>	<u>Over 5 years</u> <u>£000</u>	<u>Total Long</u> <u>Term</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2024</u> <u>£000</u>
<u>General Fund</u>					
NDR Appeals Provision	3,899	2,451	0	2,451	6,350
General Insurance Funds	650	1,354	0	1,354	2,004
Other Provisions	306	0	0	0	306
<b>Total</b>	<u>4,855</u>	<u>3,805</u>	<u>0</u>	<u>3,805</u>	<u>8,660</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 and other Rateable Value list amendments. Therefore, the Council's share of the provision (49% in 2023/24) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2024.

The estimate is based on an assessment by an external advisor of the likely success of the appeals/checks/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals, adjusted for local knowledge.

### 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 2024 amounted to £2.0M (2022/23 £2.4M). Additionally, a further £1.7M (2022/23 £1.5M) 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 and general claims inflation.

### c) Other Provisions

All other provisions are not material.

## 22. Unusable Reserves

### a) Revaluation Reserve

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2022/23</u> £000		<u>2023/24</u> £000
(408,605)	Balance Brought Forward	(435,248)
(51,070)	Upward revaluations of assets	(99,076)
10,076	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	52,191
(40,994)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(46,885)
5,628	Difference between fair value depreciation and historical cost depreciation	8,926
8,723	Accumulated Revaluations on Disposals	866
<u>(435,248)</u>	<b>Balance Carried Forward</b>	<u>(472,341)</u>

### b) Capital Adjustment Account (CAA)

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2022/23</u>		<u>2023/24</u>
£000		£000
(965,045)	Balance Brought Forward	(960,708)
	<b>Capital Financing</b>	
(6,583)	Usable Capital Receipts	(4,204)
(48,999)	Capital Grants & Contributions	(46,017)
(20,763)	HRA Financing from the Major Repairs Reserve	(17,967)
(1,790)	Revenue Contributions	(8,001)
	<b>Other Movements</b>	
15,067	Revenue Expenditure Funded from Capital under Statute	18,953
2,182	Net gains/losses from fair value adjustments on Investment	(12,165)
2,635	Amortisation of Intangibles	3,673
62,924	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	210,555
25,055	Disposals	49,862
(5,628)	Historic Cost Depreciation Adjustment	(8,926)
(8,723)	Accumulated Revaluations on Disposals	(866)
(11,120)	Provision for the Financing of Capital Investment	(12,345)
80	Other adjustments	285
<u>(960,708)</u>	<b>Balance Carried Forward</b>	<u>(787,871)</u>

### c) Pensions Reserve

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

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

<u>2022/23</u>		<u>2023/24</u>
£000		£000
423,745	Balance Brought Forward	98,054
(367,877)	Remeasurement of the net defined benefit liability/(asset)	(37,430)
73,538	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	36,340
(31,352)	Employer's pension contributions and direct payments to pensioners payable in the year.	(28,994)
<u>98,054</u>	<b>Balance Carried Forward</b>	<u>67,970</u>

## 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 business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

<u>2022/23</u>		<u>2023/24</u>
£000		£000
6,048	Balance Brought Forward	(5,712)
3,093	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	278
(14,853)	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	2,349
<u>(5,712)</u>	<b>Balance Carried Forward</b>	<u>(3,085)</u>

### e) Accumulated Absences Account

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

<u>2022/23</u>		<u>2023/24</u>
£000		£000
3,227	Balance Brought Forward	2,582
(3,227)	Settlement or cancellation of accrual made at the end of the preceding year	(2,582)
<u>2,582</u>	Amounts accrued at the end of the current year	<u>2,760</u>
<u>2,582</u>	<b>Balance Carried Forward</b>	<u>2,760</u>

### f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for each of the financial years 2020/21 to 2025/26 it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account was created for that purpose. For 2023/24 there was a DSG in-year surplus and this has been transferred into the DSG Reserve (see Note 9 Transfers to/from Revenue Reserves).

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2022/23</u>		<u>2023/24</u>
£000		£000
11,092	Balance Brought Forward	11,092
0	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	0
<u>11,092</u>	<b>Balance Carried Forward</b>	<u>11,092</u>

### g) Pooled Fund Adjustment Account

This account holds fair value gains and losses on pooled investment funds (non-capital) which are not recognised in the General Fund in accordance with a government issued statutory override. The statutory override runs to 31 March 2025.

<u>2022/23</u>		<u>2023/24</u>
£000		£000
(3,894)	Balance Brought Forward	1,199
<u>(3,894)</u>		1,199
5,093	(Upward) / Downward Revaluation of Investments	1,007
	Downward Revaluation of Investments not charged to the Surplus/ Deficit on the Provision of Service	
<u>1,199</u>	<b>Balance Carried Forward</b>	<u>2,206</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>2022/23</u>		<u>2023/24</u>
£000		£000
<b>(97,153)</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(188,146)</b>
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
47,183	Depreciation	48,818
15,741	Movement on assets charged to revenue	161,737
2,635	Amortisation	3,673
5,093	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	1,007
447	Increase/(Decrease) in Interest Creditors	1,056
(45,149)	Increase/(Decrease) in Creditors	(1,212)
(27)	(Increase)/Decrease in Interest and Dividend Debtors	(33)
(1,341)	(Increase)/Decrease in Debtors	2,394
86	(Increase)/Decrease in Inventories	41
42,186	Pension Liability	7,346
(5,691)	Contributions to/(from) Provisions	827
25,055	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	49,862
2,182	Movement in Investment Property Values	(12,165)
<b>88,400</b>		<b>263,351</b>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(48,114)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(46,799)
0	Proceeds from the sale of short and long term investments	0
(11,558)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(18,515)
(80)	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(222)
(111)	Allowable deduction arising from disposal	(41)
<b>(59,863)</b>		<b>(65,577)</b>
<b>(68,616)</b>	<b>Net Cash Flows from Operating Activities</b>	<b>9,628</b>

#### b) Operating Activities – Interest

<u>2022/23</u>		<u>2023/24</u>
£000		£000
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
(2,854)	Interest Received	(32)
(12,862)	Interest Paid	(15,277)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Cash Flows from Investing Activities

<u>2022/23</u>		<u>2023/24</u>
£000		£000
	<b>Cash Flows from Investing Activities</b>	
(85,270)	Property, Plant and Equipment Purchased	(77,949)
(232,980)	Purchase of short term investments	(206,510)
11,669	Proceeds from the sale of property plant and equipment, investment property and intangible assets	18,556
246,330	Proceeds from short-term and long-term investments	217,570
37,127	Other Receipts from Investing Activities - Capital Grants & Contributions Received	41,235
<u>(23,124)</u>	<b>Total Cash Flows from Investing Activities</b>	<u>(7,098)</u>

### d) Cash Flows from Financing Activities

<u>2022/23</u>		<u>2023/24</u>
£000		£000
	<b>Cash Flows from Financing Activities</b>	
55,000	Cash receipts of short and long term borrowing	30,000
11,330	Billing Authorities - Council Tax and NNDR adjustments	(15,131)
(7,464)	Repayment of Short-Term and Long-Term Borrowing	(20,963)
(3,144)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,294)
<u>55,722</u>	<b>Total Cash Flows from Financing Activities</b>	<u>(9,388)</u>

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

<u>2022/23</u>		<u>2023/24</u>
£000		£000
	<b>Makeup of Cash and Cash Equivalents</b>	
144	Cash and Bank Balances	139
15,490	Cash Investments - regarded as cash equivalents	7,830
(3,804)	Bank Overdraft	(2,997)
<u>11,830</u>		<u>4,972</u>

### f) Changes in liabilities

	<u>1 April 2023</u>	<u>Cash Flows</u>	<u>Non-Cash</u>	<u>31 March</u>
	£000	£000	Movements	2024
			£000	£000
Long-term borrowing	278,597	10,000	(10,600)	277,997
Short-term borrowing	25,774	(600)	11,656	36,830
Other deferred liabilities	12,734	(363)		12,371
Finance leases and PFI contracts	44,375	(3,294)		41,081
<b>Total</b>	<u>361,480</u>	<u>5,743</u>	<u>1,056</u>	<u>368,279</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. Agency Services

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

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

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors the Police & Crime Commissioner for Hampshire and the Isle of Wight and Hampshire and Isle of Wight Fire & Rescue Authority. There will therefore be a debtor/creditor position between Southampton City Council and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council tax payers.

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (2022/23 Southampton City Council 49%, Government 50% and Hampshire and Isle of Wight Fire & Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and H&IOWFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

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

In 2022/23 the Council acted as an agent in making mandatory energy rebate scheme payments and energy bills support scheme payments to members of the community on behalf of the government. The income and expenditure to which they relate were not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council is provided in Note 37.

### 25. Members' Allowances

The total of members' allowances paid in was £0.870M (2022/23 was £0.839M) as detailed in the table below.

	<u>2022/23</u>	<u>2023/24</u>
	£000	£000
Basic Allowances	645	701
Responsibility & Other Allowances	185	165
Expenses	9	4
Total	<u>839</u>	<u>870</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 2022/23.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Band £</u>		<u>Number of Employees</u>					
		<u>2022/23</u>			<u>2023/24</u>		
		<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 -	54,999	80	145	225	99	150	249
55,000 -	59,999	45	82	127	67	120	187
60,000 -	64,999	30	48	78	43	79	122
65,000 -	69,999	18	23	41	30	36	66
70,000 -	74,999	19	12	31	12	17	29
75,000 -	79,999	18	7	25	22	11	33
80,000 -	84,999	6	10	16	9	10	19
85,000 -	89,999	5	4	9	10	6	16
90,000 -	94,999	1	3	4	2	7	9
95,000 -	99,999	2	2	4	1	3	4
100,000 -	104,999	1	1	2	4	1	5
105,000 -	109,999	0	2	2	0	2	2
110,000 -	114,999	0	2	2	1	3	4
115,000 -	119,999	2	0	2	0	1	1
120,000 -	124,999	0	0	0	1	0	1
125,000 -	129,999	1	0	1	0	0	0
130,000 -	134,999	0	1	1	1	1	2
135,000 -	139,999	1	0	1	2	0	2
140,000 -	144,999	0	2	2	0	0	0
145,000 -	149,999	0	0	0	1	2	3
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	2	2	0	1	1
165,000 -	169,999	0	1	1	0	0	0
170,000 -	174,999	0	0	0	0	0	0
175,000 -	179,999	0	0	0	0	0	0
180,000 -	184,999	0	0	0	0	0	0
185,000 -	189,999	0	0	0	0	0	0
190,000 -	194,999	0	0	0	0	0	0
195,000 -	199,999	0	0	0	0	0	0
200,000 +		0	0	0	0	1	1
		<b>229</b>	<b>347</b>	<b>576</b>	<b>305</b>	<b>451</b>	<b>756</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

2023/24

<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 2023/24</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2023/24</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b> - Andrew Travers from 29/01/2024	34,901				34,901		34,901
<b>Chief Executive</b> - Mike Harris until 31/03/2024	180,369		75,000		255,369	30,302	285,671
<b>Executive Director - Community Wellbeing (DASS)</b> - Claire Edgar (Note 2)	147,414				147,414	24,766	172,180
<b>Executive Director - Wellbeing (Children &amp; Learning)</b> - Robert Henderson	165,000	37			165,037	25,774	190,811
<b>Executive Director - Corporate Services</b> - Mel Creighton	147,097				147,097	24,712	171,809
<b>Director - Strategy &amp; Performance</b> - Munira Holloway	90,962				90,962	15,282	106,244
<b>Director - Legal &amp; Governance</b> - Richard Ivory	131,954	251			132,205	3,218	135,423
	<b>897,697</b>	<b>288</b>	<b>75,000</b>	<b>-</b>	<b>972,985</b>	<b>124,054</b>	<b>1,097,039</b>

**Note 1**

Between 01/04/2023 and 28/03/2024 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £234,457 excluding VAT.

**Note 2**

Between 11/03/2024 and 31/03/2024 the Executive Director - Resident Services role was undertaken by Debbie Ward via an external company. Payment for this period was £9,860 excluding VAT. Previously services within the scope of this new role were undertaken by Claire Edgar and Adam Wilkinson.

**Note 3**

There were no bonuses paid.

**Note 4**

In 2023/24 the employer's contribution rate for the Local Government Pension Scheme was 16.8%.

# NOTES TO THE CORE FINANCIAL STATEMENTS

2022/23

<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 2022/23</u>	<u>Pensions contributions (see Note 4)</u>	<u>Total Remuneration including pension contributions 2022/23</u>
	£	£	£	£	£	£	£
<b>Chief Executive</b> - Mike Harris	167,403	23			167,426	30,467	197,893
<b>Executive Director - Communities, Culture &amp; Homes</b> - Mary D'Arcy until 11/01/2023	118,194	92	41,995		160,281	21,337	181,618
<b>Executive Director - Wellbeing &amp; Housing</b> - Claire Edgar (Note 2) from 01/01/2023	34,589				34,589	6,295	40,884
<b>Executive Director - Wellbeing (Children &amp; Learning)</b> - Robert Henderson	161,725	120			161,845	29,434	191,279
<b>Executive Director - Finance &amp; Commercialisation</b> - John Harrison until 26/02/2023	137,500		7,268		144,768		144,768
<b>Executive Director - Corporate Services</b> - Mel Creighton from 27/02/2023	12,690				12,690	2,309	14,999
<b>Director - Strategy &amp; Performance</b> - Munira Holloway from 01/11/2022	35,773				35,773	6,511	42,284
<b>Director - Governance, Legal &amp; HR</b> - Richard Ivory	133,531	549			134,080		134,080
	<b>801,405</b>	<b>784</b>	<b>49,263</b>	<b>-</b>	<b>851,452</b>	<b>96,353</b>	<b>947,805</b>

**Note 1**

Between 01/04/2022 and 31/03/2023 the Executive Director - Place role was undertaken by Adam Wilkinson via an external company. Payment for this period was £242,146 excluding VAT.

**Note 2**

Between 01/04/2022 and 06/07/2022 the Executive Director - Wellbeing (Health & Adults DASS) role was undertaken by Guy van Dichele via an external company. Payment for this period was £58,637 excluding VAT.

**Note 3**

There were no bonuses paid.

**Note 4**

In 2022/23 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

## b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £4.2M (2022/23 £0.8M) 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Exit Package Cost Band</u> <u>(including special</u> <u>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>2022/23</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2023/24</u>
							<u>£000</u>	<u>£000</u>
£0-£20,000	4	19	19	58	23	77	200	637
£20,001-£40,000	3	4	7	23	10	27	279	764
£40,001-£60,000	0	1	3	16	3	17	142	821
£60,001-£80,000	1	0	1	6	2	6	136	410
£80,001-£100,000	0	0	0	8	0	8	0	686
£100,001-£150,000	0	0	0	4	0	4	0	478
£150,000+	0	1	0	1	0	2	0	367
<b>Total</b>	<b>8</b>	<b>25</b>	<b>30</b>	<b>116</b>	<b>38</b>	<b>141</b>	<b>757</b>	<b>4,163</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. Audit scale fees have increased under the new auditor appointment contract for the period 2023/24 to 2027/28.

<u>2022/23</u>	<u>2023/24</u>
<u>£000</u>	<u>£000</u>
185 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	434
4 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	18
10 Fees payable to KPMG in respect of grant claims and returns for the year	30
<b>199</b>	<b>482</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 2023/24 are as follows:

	<u>Central Expenditure</u>	<u>Individual Schools Budget</u>	<u>Total</u>
	£000	£000	£000
Final DSG for 2023/24 before academy and high needs recoupment			245,152
Academy and high needs figure recouped for 2023/24			(84,373)
<b>Total DSG after academy and high needs recoupment for 2023/24</b>			<b>160,779</b>
Plus: Brought forward from 2022/23			992
Agreed initial budgeted distribution in 2023/24	23,472	138,299	161,771
In year adjustments	0	606	606
<b>Final Budgeted Distribution for 2023/24</b>	<b>23,472</b>	<b>138,905</b>	<b>162,377</b>
Less: Actual central expenditure	(21,599)		(21,599)
Less: Actual ISB deployed to schools		(136,791)	(136,791)
<b>In-year Carry Forward to 2024/25</b>	<b>1,873</b>	<b>2,114</b>	<b>3,987</b>
Plus Carry-forward to 2024/25 agreed in advance			0
Carry Forward to 2024/25			3,987
DSG unusable reserve at the end of 2022/23			(11,092)
Addition to DSG unusable reserve in 2023/24			0
<b>DSG unusable reserve at the end of 2023/24</b>			<b>(11,092)</b>
<b>Net DSG position at the end of 2023/24</b>			<b>(7,105)</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).

## 29. Related Parties

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

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

During the year major transactions with related parties arose with: the Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Hampshire and Isle of Wight Integrated Care Board as disclosed in Note 39 Pooled Budgets; and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note

## NOTES TO THE CORE FINANCIAL STATEMENTS

37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire and Isle of Wight Police & Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis. Details of companies which the City Council has an interest are provided in Note 36.

Southampton Forward is a culture trust established to take forward the legacy from the 2025 City of Culture bidding process. With the support of a Place Partnership grant from Arts Council England and the commitment from city-wide partners, the trust aims to help foster social, cultural and economic benefits for the city and showcase Southampton as a great place to live, work, visit and play. During 2023/24 the then Leader of the Council was a trustee of the trust and remained in the role as a Councillor following their resignation as Leader in December 2023. The former Chief Executive was also a trustee during the year until their resignation in January 2024. The Council provided £0.345M of grant funding to the trust in 2023/24 (£0.464M support in grant funding and benefits in kind in 2022/23).

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

- One former councillor is a trustee of the National Spitfire Project which received grant payments from the Council of £0.025M in 2023/24.
- One councillor and a member of the close family of another councillor are trustees of Monty's Community Hub which received service payments of £0.017M in 2023/24.
- Two councillors have an interest in Music in the City which received grant payments of £0.006M from the Council in 2023/24.
- One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.106M from the Council in 2023/24.
- One councillor is a member of Oasis Hub Community Council which received grant payments of £0.013M from the Council in 2023/24.
- One councillor is a trustee of City Eye Limited which received grant and other payments of £0.031M from the Council in 2023/24.

### 30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2022/23</u>	<u>2023/24</u>
	<u>£000</u>	<u>£000</u>
<b>Opening Capital Financing Requirement</b>	<b>507,877</b>	<b>517,439</b>
<b>Capital Investment</b>		
Intangible assets	3,328	1,895
Property Plant & Equipment	79,232	76,509
Revenue Expenditure Funded from Capital under Statute	15,067	18,953
Heritage Assets	646	963
Investment Properties	544	177
<b>Sources of Finance</b>		
Capital Receipts	(6,583)	(4,204)
Government grants & other contributions	(48,999)	(46,017)
Use of Major Repairs Reserve	(20,763)	(17,967)
Direct Revenue Financing	(1,790)	(8,001)
MRP	(11,120)	(12,345)
<b>Closing Capital Financing Requirement</b>	<b>517,439</b>	<b>527,402</b>
Increase in underlying need to borrow (unsupported by Government financial assistance)	20,682	22,308
MRP	(11,120)	(12,345)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b>9,562</b>	<b>9,963</b>

### 31. Leases

#### a) Council as a Lessor

##### Operating Leases

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

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

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

	<u>31 March</u>	<u>31 March</u>
	<u>2023</u>	<u>2024</u>
	<u>£000</u>	<u>£000</u>
Not later than one year	7,048	32,709
Later than one year and not later than five years	22,109	19,450
Later than five years	526,074	510,262
	<u>555,231</u>	<u>562,421</u>
Contingent Rents	<u>454</u>	<u>424</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

### 32. PFI and Similar Contracts

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

#### a) On Balance Sheet

##### PFI Schools

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

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

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

The three schools have now transferred to Trust status and once transfer agreements have been completed the fixed assets will be derecognised from the Balance Sheet.

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

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

##### PFI Street Lighting

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes

## NOTES TO THE CORE FINANCIAL STATEMENTS

the replacement of 17,000 of the city's 28,000 streetlights 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. In 2022/23 the Council received a £1.6M rebate on the unitary charge following a refinancing of the scheme by the PFI operator, which was accounted for as a contingent rent.

### b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

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

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

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows.

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
<b>Cost or Valuation</b>		<u>£000</u>	<u>£000</u>	
At 1 April 2023	53,262	12,309	25,819	91,390
Adjustment to Opening Balance				0
	53,262	12,309	25,819	91,390
Additions	30			30
Disposals				0
Revaluations	(901)	3,252		2,351
Impairments				0
<b>At 31 March 2024</b>	<b>52,391</b>	<b>15,561</b>	<b>25,819</b>	<b>93,771</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2023	0	(4,434)	(8,049)	(12,483)
Adjustment to Opening Balance				0
	0	(4,434)	(8,049)	(12,483)
Depreciation Charge for the Year	(2,750)	(886)	(996)	(4,632)
Disposals				0
Revaluations	831	5,320		6,151
Impairments				0
<b>At 31 March 2024</b>	<b>(1,919)</b>	<b>0</b>	<b>(9,045)</b>	<b>(10,964)</b>
<b>Balance Sheet amount at 31 March 2024</b>	<b>50,472</b>	<b>15,561</b>	<b>16,774</b>	<b>82,807</b>
<b>Balance Sheet amount at 31 March 2023</b>	<b>53,262</b>	<b>7,875</b>	<b>17,770</b>	<b>78,907</b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance 1 April 2023	23,492	1,670	19,213	44,375
New Schemes in 2023/24	0	0	0	0
Repayments	(1,727)	(875)	(692)	(3,294)
<b>Balance 31 March 2024</b>	<b>21,765</b>	<b>795</b>	<b>18,521</b>	<b>41,081</b>
<b>Due within 1 Year</b>				
Balance 1 April 2023	1,727	875	692	3,294
Repayments	(1,727)	(875)	(692)	(3,294)
Due within 1 Year	2,428	757	791	3,976
<b>Balance 31 March 2024</b>	<b>2,428</b>	<b>757</b>	<b>791</b>	<b>3,976</b>
<b>Long Term Creditor Balance 31 March 2024</b>	<b>19,337</b>	<b>38</b>	<b>17,730</b>	<b>37,105</b>

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

	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service</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>£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	2,428	1,850	1,729	1,621	757	143	7,625	790	2,196	1,414	20,553
within 2 to 5 years	10,483	5,342	9,584	6,721	38	10	2,120	4,539	7,642	6,048	52,527
within 6 to 10 years	8,854	1,350	5,160	5,764				10,256	5,455	8,518	45,357
within 11 to 15 years								2,936	266	1,843	5,045
<b>Balance 31 March 2024</b>	<b>21,765</b>	<b>8,542</b>	<b>16,473</b>	<b>14,106</b>	<b>795</b>	<b>153</b>	<b>9,745</b>	<b>18,521</b>	<b>15,559</b>	<b>17,823</b>	<b>123,482</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	3,966	2,635	6,601
within 2 to 5 years	14,555	10,541	25,096
within 6 to 10 years		13,176	13,176
within 11 to 15 years		2,240	2,240
<b>Balance 31 March 2024</b>	<b>18,521</b>	<b>28,592</b>	<b>47,113</b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,727	1,996	3,033	1,023	7,779
Hampshire Waste	875	301	7,206		8,382
PFI Street Lighting	692	2,282	1,378		4,352
BUPA Care Homes					
Northlands			3,379		3,379
Oak Lodge			2,272		2,272
<b>Totals</b>	<b>3,294</b>	<b>4,579</b>	<b>17,268</b>	<b>1,023</b>	<b>26,164</b>

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

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions 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 12,300 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 2023/24 the Council paid £12.1M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2022/23 £11.8M and 23.7%). The contributions due to be paid in the next financial year are estimated to be £15.1M.

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 Operations & Deputy Chief Executive 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 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2025.

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

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

In 2023/24 the Council paid an employer's contribution of £29.0M (2022/23 £31.4M) into Hampshire County Council's Pension Fund. The employer's rate for 2023/24 was 16.8% of employees' pay (2022/23 18.2%).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2025 is £25.7M. The weighted average duration of the defined benefit obligation for the scheme members is 17 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme & Discretionary Benefits	
	2022/23	2023/24
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
<b>Service cost comprising:</b>		
<i>Current Service Cost</i>	62,330	28,809
<i>Past Service Cost</i>	147	2,860
<i>(Gain)/loss from settlements</i>	0	0
<i>Financing and Investment Income and Expenditure</i>		
<i>Expenditure:</i>		
<i>Net interest expense</i>	11,061	4,671
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>73,538</b>	<b>36,340</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)	97,845	(45,896)
Actuarial gains and losses arising on changes in demographic assumptions	83	(13,220)
Actuarial gains and losses arising on changes in financial assumptions	(581,539)	(21,498)
Other experience and actuarial adjustments	115,734	43,184
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(367,877)</b>	<b>(37,430)</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	(73,538)	(36,340)
Actual amount charged against the General Fund Balance for pensions in the year		
<b>Employers Contributions payable to scheme</b>	<b>29,204</b>	<b>26,779</b>
<b>Retirement benefits payable to pensioners</b>	<b>2,148</b>	<b>2,215</b>

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2024 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 £68.0M (2022/23 £98.1M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be 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 Scheme & Discretionary Benefits	
	2022/23	2023/24
	£000	£000
Present value of the defined benefit obligation:		
LGPS funded benefits	1,149,503	1,215,095
LGPS unfunded benefits	11,198	10,394
Teachers' unfunded pensions	14,922	14,850
Total present value of the defined benefit obligation	1,175,623	1,240,339
Fair value of plan assets	(1,077,569)	(1,172,369)
Sub-total	98,054	67,970
Other movements in the liability (asset)	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>98,054</b>	<b>67,970</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

The latest actuarial valuation of liabilities took place at 31 March 2022. 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 2024.

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

	Local Government Pension Scheme & Discretionary Benefits	
	<u>2022/23</u>	<u>2023/24</u>
	£000	£000
Opening fair value of scheme assets	1,141,200	1,077,569
Interest income	30,823	50,606
Remeasurement gain/(loss)	(97,845)	45,896
Contributions from employer:		
LGPS funded benefits	29,204	26,779
Discretionary benefits	2,148	2,215
Contributions from employees into the scheme	9,666	9,935
Benefits paid:		
LGPS funded benefits	(35,479)	(38,416)
Discretionary benefits	(2,148)	(2,215)
<b>Closing fair value of scheme assets</b>	<b><u>1,077,569</u></b>	<b><u>1,172,369</u></b>

	Local Government Pension Scheme & Discretionary Benefits	
	<u>2022/23</u>	<u>2023/24</u>
	£000	£000
Opening balance at 1 April	1,564,945	1,175,623
Current service cost	62,330	28,809
Interest cost	41,884	55,277
Contributions from scheme participants	9,666	9,935
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	83	(13,220)
Actuarial gains/losses arising from changes in financial assumptions	(581,539)	(21,498)
Other	115,734	43,184
Past service cost	147	2,860
Benefits paid:		
LGPS funded benefits	(35,479)	(38,416)
Discretionary benefits	(2,148)	(2,215)
<b>Closing balance at 31 March</b>	<b><u>1,175,623</u></b>	<b><u>1,240,339</u></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 Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2022. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme & Discretionary Benefits	
	<u>2022/23</u>	<u>2023/24</u>
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.3	22.1
Women	25.7	24.7
Longevity at 65 for future pensioners:		
Men	23.8	22.6
Women	26.7	25.7
CPI inflation	2.7%	2.8%
Rate of increase in salaries	3.7%	3.8%
Rate of increase in pensions	2.7%	2.8%
Rate for discounting scheme liabilities	4.7%	4.9%

### f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by Hampshire County Council, the Fund administering authority) is shown in the table below.

	<u>2022/23</u>	<u>2022/23</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2023/24</u>	<u>2023/24</u>
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	42.00	15.60	57.60	43.00	7.00	50.00
Property	1.40	5.40	6.80	-	7.00	7.00
Government Bonds	16.50	-	16.50	15.00	-	15.00
Corporate Bonds	-	-	-	-	5.00	5.00
Multi Asset Credit	-	-	-	-	-	-
Cash	1.10	-	1.10	1.00	-	1.00
Other	-	18.00	18.00	5.00	17.00	22.00
<b>Total assets</b>	<b>61.00</b>	<b>39.00</b>	<b>100.00</b>	<b>64.00</b>	<b>36.00</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	
	Approximate % increase to Employer Liability	Approximate monetary amount
0.1% decrease in Real Discount Rate	2.0%	20,996
0.1% increase in Salary Increase Rate	0.0%	999
0.1% increase in Pension Increase Rate (CPI)	2.0%	20,387
1 year increase in member life expectancy	4.0%	49,614

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 Operations & Deputy Chief Executive, The Castle, Winchester, Hampshire, SO23 8UB.

### 35. Contingent Liabilities/ Assets

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

#### a) Deprivation of Liberty Safeguards

The Mental Capacity Act 2005 provides a statutory framework for acting and making decisions on behalf of people who lack the capacity to make those decisions for themselves. These are known as Deprivation of Liberty Safeguards (DoLS). The Council may face compensation claims if DoLS applications are not properly authorised. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

#### b) Equal Pay Claims

The Council has received a small number of equal pay claims for which a settlement has been reached. The Council recognises the potential for further equal pay claims to be forthcoming, some of which may lead to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

#### c) 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 £0.27M (2022/23 £0.13M), 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 2024, the Council's outstanding potential liability under the SoA stood at £1.390M (2022/23 £1.390M), less the £0.347M payment already made under the scheme. There was £0.069M (2022/23 £0.084M) in outstanding claim reserves.

### 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 2023/24 there were no material transactions that required the production of group accounts. The council previously had a limited liability partnership with PSP Facilitating Limited. A decision to dissolve the partnership was taken in December 2023.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

<u>2022/23</u>		<u>2023/24</u>
<b>£000</b>		<b>£000</b>
(49,856)	Balance Brought Forward	(38,792)
(9,857)	Amounts Received in Year	(24,786)
20,921	Amounts Applied to Finance Capital in year	30,654
<u>(38,792)</u>	<b>Balance Carried forward</b>	<u>(32,924)</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>2022/23</u> £000		<u>2023/24</u> £000	£000
	<b>Grants</b>		
	Department for Education		
(7,752)	Basic Need Grant	0	
(3,230)	School Condition Allocation	(2,818)	
(482)	Schools Devolved Formula Grant	(1,798)	
(7,602)	High Needs Provision Capital Allocation	(4,424)	
(37)	Other	(441)	
<u>(19,103)</u>			<u>(9,481)</u>
(2,506)	Department for Levelling Up, Housing and Communities		(4,384)
(9)	Department for Business, Energy & Industrial Strategy		(391)
(21,532)	Department for Transport		(26,555)
(100)	Homes & Communities Agency		(42)
(58)	Environment Agency		(70)
(74)	British Library		(27)
(119)	Sports England		0
0	Arts Council		(112)
(246)	Other		(93)
<u>(43,747)</u>			<u>(41,155)</u>
<b>(4,367)</b>	<b>Contributions</b>		<b>(5,645)</b>
<u><b>(48,114)</b></u>	<b>Total</b>		<u><b>(46,800)</b></u>
<b>(33,358)</b>	<b>Credited to Capital Grants and Contributions CIES</b>		<b>(29,307)</b>
<b>(14,756)</b>	<b>Credited to Cost of Services</b>		<b>(17,493)</b>
<u><b>(48,114)</b></u>	<b>Total</b>		<u><b>(46,800)</b></u>

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2022/23</u> £000		<u>2023/24</u> £000
	<b>General Government Grants</b>	
(11,367)	Revenue Support Grant	(12,880)
(11,526)	Social Care Grant	
(11,150)	Section 31 Business Rates Grants	(16,241)
(4,628)	Business Rates Retention Tariff/Top-Up	(5,808)
(3,816)	Services Grant	(2,239)
(1,258)	Housing Benefit and Council Tax Admin Grant	
<u>(3,565)</u>	Other Grants less than £1M	<u>(2,166)</u>
(47,310)		(39,334)
	<u>COVID-19</u>	
(4,668)	Section 31 Business Rates Grants	186
46	Other Grants less than £1M	72
<u>(4,622)</u>		<u>258</u>
<b><u>(51,932)</u></b>		<b><u>(39,076)</u></b>
	<b>Credited to Services</b>	
(149,281)	Dedicated Schools Grant (DSG)	(161,385)
(59,905)	Housing Benefit Grant	(61,733)
(17,950)	Public Health Grant	(18,535)
	Social Care Grant	(18,468)
(10,705)	Improved Better Care Fund	(10,705)
(9,836)	Pupil Premium (including PE & Sports Premium)	(10,584)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(3,880)	Household Support Fund	(4,405)
	Market Sustainability and Improvement Fund	(4,285)
(2,952)	Homelessness and Rough Sleeping Grants	(3,606)
	Mainstream Schools Additional Grant	(3,542)
(1,856)	Unaccompanied Asylum Seeking Children	(2,690)
	Adult Social Care Discharge Fund	(1,501)
	Family Hubs Grant	(1,401)
	Teachers Pay Additional Grant	(1,357)
(1,150)	Universal Infant Free School Meals	(1,274)
(1,258)	School Holiday Activities and Food Programme	(1,244)
	Early Years Supplementary Grant	(1,206)
	Supplementary Substance Misuse Treatment and Recovery Grant	(1,067)
(1,033)	Supporting Families Grant	(1,066)
(1,397)	Homes for Ukraine Grant	
(1,196)	Schools Devolved Formula Capital Grant	
(2,847)	Schools Supplementary Grant	
<u>(14,959)</u>	Other Grants less than £1M	<u>(16,084)</u>
(286,064)		(331,997)
	<u>COVID-19</u>	
(1,714)	Pupil Premium Catch Up and Recovery Funding	(1,638)
(805)	Other Grants less than £1M	31
<u>(2,519)</u>		<u>(1,607)</u>
<b><u>(288,583)</u></b>		<b><u>(333,604)</u></b>
	<b>Not included in the Comprehensive Income and Expenditure Statement</b>	
(14,264)	Council Tax Energy Rebate Scheme - Non-Discretionary	45
<u>(4)</u>	Other Grants less than £1M	<u>(46)</u>
(14,268)		(1)
	<u>COVID-19</u>	
41	Other Grants less than £1M	0
<u>41</u>		<u>0</u>
<b><u>(14,227)</u></b>		<b><u>(1)</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

In 2022/23 Social Care Grant was un-ringfenced and therefore reported within general government grants. From 2023/24 the grant is ringfenced to children and adults' social care and has been credited to services.

The £14.2M of grants for 2022/23 not included in the Comprehensive Income and Expenditure Statement are where the Council acted as an agent of central government in disbursing funding to individuals and businesses.

### 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.

<b><u>31 March</u></b> <b><u>2023</u></b> <b>£000</b>		<b><u>31 March</u></b> <b><u>2024</u></b> <b>£000</b>
13,098	Balance Brought Forward	12,734
(364)	Principal written down	(363)
<b><u>12,734</u></b>		<b><u>12,371</u></b>

### 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 Hampshire and Isle of Wight Integrated Care Board 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 ICB 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 ICB; services commissioned under this scheme include ICB contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

The table below shows pooled funds with income/expenditure in excess of £2M.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2022/23</u>					<u>2023/24</u>			
<u>LBHU</u>		<u>R&amp;R</u>			<u>LBHU</u>		<u>R&amp;R</u>	
<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>		<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
				<b>Better Care Fund</b>				
				<b>Funding - Contributions / Grants</b>				
0		0		Brought Forward	0		0	
(1,176)	49%	(6,308)	34%	Southampton City Council	(1,176)	49%	(6,636)	35%
(1,224)	51%	(12,284)	66%	Integrated Care Board	(1,224)	51%	(12,398)	65%
<b>(2,400)</b>		<b>(18,592)</b>			<b>(2,400)</b>		<b>(19,034)</b>	
2,400		18,592		<b>Expenditure</b>	2,400		19,034	
<b>0</b>		<b>0</b>		<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.

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	
Aldridge Bequest	(13)	0	(268)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	(4)	0	(171)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	(44)	Works of art
LC Smith Bequest	(2)	0	(38)	Merchants Navy's Memorial maintenance help in Holyrood Church
Jean Rattray	(63)	0	(63)	Capital Mental Health Projects
<b>Minor Trust Funds consisting of:</b>				
Ida Bany Bequest	(1)	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	(5)	Bitterne Park School special annual prizes
Southampton Archives Bequest	0	0	(5)	Preserve historical records
<b>Trust Funds Total</b>	<b>(83)</b>	<b>0</b>	<b>(611)</b>	
Wessex Slaughterhouse Board	(5)	7	(93)	Pensions to former employees
<b>Total</b>	<b>(88)</b>	<b>7</b>	<b>(704)</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>2022/23</u>		<u>2023/24</u>
£000	Expenditure	Notes £000
23,766	Repairs and maintenance	22,251
29,678	Supervision and management	27,836
8,125	Rents, rates, taxes and other charges	7,615
33,361	Depreciation, impairment and revaluation (gains) of non-current assets	173,359
77	Debt management costs	82
1,366	Movement in the allowance for bad debts	1,056
<b>96,373</b>	<b>Total Expenditure</b>	<b>232,199</b>
	<b>Income</b>	
(70,563)	Dwellings rent	(74,819)
(1,317)	Non-dwelling rents	(1,247)
(10,495)	Charges for services & facilities	(10,776)
(2,077)	Contributions towards expenditure	(2,222)
<b>(84,452)</b>	<b>Total Income</b>	<b>(89,064)</b>
<b>11,921</b>	<b>Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>143,135</b>
518	HRA services' share of Corporate and Democratic Core	518
<b>12,439</b>	<b>Net Expenditure/(Income) for HRA Services</b>	<b>143,653</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(6,477)	(Gain) or loss on the sale of HRA non-current assets	(4,026)
(13)	Capital Receipts not matched by Disposal of Assets	(70)
(42)	Investment Property Revaluation Movements	(2,212)
5,123	Interest payable and similar charges	5,766
(57)	Interest and investment income	(105)
2,053	Net interest on the net defined benefit liability	896
(898)	Capital grants and contributions receivable	(2,894)
<b>12,128</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>	<b>141,008</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Statement of Movement on the Housing Revenue Account

<u>2022/23</u> £000		<u>2023/24</u> £000	£000
(2,920)	Opening Balance		(2,000)
	<b>Movement in Year</b>		
12,128	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	141,008	
(11,208)	Adjustments between accounting basis and funding basis under statute	(141,598)	
<u>920</u>	Transfer to / (from) reserves		<u>(590)</u>
<u>(2,000)</u>	<b>Closing HRA Balance</b>		<u>(2,590)</u>

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

<u>2022/23</u> £000		<u>2023/24</u> £000
	<b>Analysis of adjustments between accounting basis and funding basis under statute</b>	
(33,361)	Depreciation, impairment and revaluation gains or (losses) of non-current assets	(173,359)
0	Voluntary MRP	0
6,490	Gain or (loss) on the sale of HRA non-current assets	4,096
42	Impairment and revaluation of investment properties	2,212
(7,830)	HRA share of contribution to or from the pension reserve	(1,409)
20,763	Transfer to Major Repairs Reserve	17,967
898	Capital grants and contributions applied	2,894
1,790	Capital expenditure funded by the HRA	6,001
<u>(11,208)</u>	<b>Net Adjustment</b>	<u>(141,598)</u>

## 1. Council House Rents

At 31 March 2024, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 7.80% (31 March 2023 14.46%). The total arrears were £11.124M (31 March 2023 £10.507M). Rents written off during the year amounted to £0.701M (2022/23 £0.464M). The amount set aside for doubtful debts was £6.649M (31 March 2023 £6.120M).

## 2. Housing Stock

As at the 31 March 2024, the Council housing stock was made up of the following types of property:

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<b><u>Number of Properties Held</u></b>		
<b>31 March</b>		<b>31 March</b>
<b>2023</b>		<b>2024</b>
4,817	Houses	4,810
11,001	Flats	11,023
16	Bungalows	16
<b><u>15,834</u></b>		<b><u>15,849</u></b>

The Balance Sheet value of HRA assets was as follows:

<b><u>Balance Sheet Value of HRA Assets</u></b>		
<b><u>2022/23</u></b>		<b><u>2023/24</u></b>
<b>£000</b>		<b>£000</b>
<b><i>Property Plant &amp; Equipment</i></b>		
753,564	Dwellings	625,785
7,920	Other Operational Property	10,472
16,594	Assets Under Construction	7,154
<b><u>778,078</u></b>		<b><u>643,411</u></b>
<b><i>Other Property</i></b>		
5,940	Investment Property	8,152
1,601	Intangibles	1,260
418	Surplus Assets	416
<b><u>7,959</u></b>		<b><u>9,828</u></b>
<b><u><u>786,037</u></u></b>		<b><u><u>653,239</u></u></b>

The vacant possession value of Council Dwellings at 1 April 2023 was £2,016M (£2,174M as at 1 April 2022) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2024.

### 3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There were no impairments in 2022/23 or 2023/24.

<b><u>2022/23</u></b>	<b>Depreciation</b>	<b><u>2023/24</u></b>
<b>£000</b>		<b>£000</b>
20,005	Balance at 1 April	21,147
(19,621)	Depreciation written off in year	(20,587)
<u>20,763</u>	Depreciation during year	<u>17,967</u>
<b><u>21,147</u></b>	<b>Balance as at 31 March</b>	<b><u>18,527</u></b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 4. Capital Expenditure

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

<b>Capital Spending</b>		
<b><u>2022/23</u></b>		<b><u>2023/24</u></b>
<b>£000</b>		<b>£000</b>
32,804	Housing Stock	35,306
2,138	Housing Stock Under Construction	1,361
934	Intangible assets	101
<b><u>35,876</u></b>	<b>Total Capital Expenditure</b>	<b><u>36,768</u></b>
<b>Capital Expenditure Source of Finance</b>		
<b>£000</b>		<b>£000</b>
6,272	Capital Receipts	2,737
0	Grants	2,203
20,763	Transfer from Major Repairs Reserve	17,967
898	Contributions	691
1,790	Direct Revenue Funding	6,001
6,153	Unsupported Borrowing	7,169
<b><u>35,876</u></b>	<b>Total Financing</b>	<b><u>36,768</u></b>

### 5. Capital Receipts

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

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

Any additional receipts can be used to fund up to 40% (2022/23 40%) 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 addition to these receipts, for 2022/23 and 2023/24, the Treasury share of £1.160M can be retained and used to fund up to 40% of new build affordable housing projects. In 2023/24 the Council received £3.44M (2022/23 £5.41M) from right to buy sales that can be utilised on new build affordable housing projects.

<b><u>2022/23</u></b>	<b>Sale of Assets</b>	<b><u>2023/24</u></b>
<b>£000</b>		<b>£000</b>
11,409	Council Housing	5,671
13	Land, Buildings & Equipment	70
<b><u>11,422</u></b>		<b><u>5,741</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 (business) rates and council tax and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

<u>Income and Expenditure for the Year Ended 31 March 2024</u>			
<u>2022/23</u>		<u>2023/24</u>	
£000	Council Tax	Notes	£000
	<b>Income</b>		
(130,517)	Income due from Council Tax Payers		(138,583)
	Transfers (to)/ from the General Fund		
(233)	- Hardship Relief		(718)
0	- Transitional Relief		0
<u>(233)</u>			<u>(718)</u>
<b>(130,750)</b>			<b>(139,301)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
2,470	- Southampton City Council		(261)
341	- Hampshire and IOW Police & Crime Commissioner		(35)
105	- Hampshire and IOW Fire & Rescue Authority		(12)
<u>2,916</u>			<u>(308)</u>
<b>(127,834)</b>	<b>Total Council Tax Income</b>		<b>(139,609)</b>
	<b>Expenditure</b>		
	Precepts		
108,770	- Southampton City Council Precept		115,772
15,641	- Hampshire and IOW Police & Crime Commissioner Precept		16,862
4,989	- Hampshire and IOW Fire & Rescue Authority Precept		5,393
<u>129,400</u>		2	<u>138,027</u>
	Impairment of debts		
2,718	- Write offs		2,957
(625)	- Allowance for impairment		(1,040)
<u>2,093</u>			<u>1,917</u>
<b>131,493</b>	<b>Total Council Tax Expenditure</b>		<b>139,944</b>
<b>3,659</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>	4	<b>335</b>
(2,759)	Council Tax - Deficit / (Surplus) Brought Forward	4	900
<b>900</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>	4	<b>1,235</b>
	<b>Business Rates</b>		
	<b>Income</b>		
<b>(89,276)</b>	Income Collectable from Business Ratepayers	3	<b>(93,435)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
(11,893)	- Southampton City Council		1,690
(12,136)	- Central Government - DLUHC		1,724
(243)	- Hampshire and IOW Fire & Rescue Authority		34
<u>(24,272)</u>			<u>3,448</u>
<b>(113,548)</b>	<b>Total Business Rates Income</b>		<b>(89,987)</b>
	<b>Expenditure</b>		
568	- Payment to DLUHC - Transitional Arrangements		(6,121)
45,584	- Payment to DLUHC - Business Rate Retention		48,419
44,672	- SCC Business Rates Retention		47,450
912	- Hampshire and IOW Fire & Rescue Authority Precept		968
0	- Interest on Overpayments		125
298	- Costs of Collection		292
<u>92,034</u>	- Other transfers to the General Fund - Freeport disregard		<u>4</u>
	Impairment of debts/appeals		<b>91,137</b>
329	- Write offs		2,499
929	- Allowance for impairment		(1,098)
(10,056)	- Appeals provision		2,230
<u>(8,798)</u>			<u>3,631</u>
<b>83,236</b>	<b>Total Business Rates Expenditure</b>		<b>94,768</b>
<b>(30,312)</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>	4	<b>4,781</b>
17,109	Business Rates - Deficit / (Surplus) Brought Forward	4	<b>(13,203)</b>
<b>(13,203)</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>	4	<b>(8,422)</b>
<b>(12,303)</b>	<b>Total Collection Fund (Surplus) / Deficit</b>	4	<b>(7,187)</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, normally in the subsequent financial year. To reduce the financial impact in any one year of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years, starting in 2021/22. The final third of this estimated exceptional loss was recovered from precepting bodies in 2023/24. For Southampton, Council Tax precepting bodies are the Police & Crime Commissioner for Hampshire and the Isle of Wight and the Hampshire and Isle of Wight Fire & Rescue Authority.

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2023/24 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (the same proportions applied for 2022/23). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years, starting in 2021/22. The final third of this estimated exceptional loss was recovered from precepting bodies in 2023/24.

### 2. Council Tax Base

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

The Council Tax base for 2023/24 was 68,078 (2022/23 67,153). The tax base for 2023/24 was calculated as follows:

<b>Council Tax Base</b>			
	<b><u>Net Chargeable Dwellings</u></b>	<b><u>Relevant Proportion</u></b>	<b><u>Band D Equivalents</u></b>
Band A Disabled	36.7	5/9	20.4
Band A	21,932.1	6/9	14,621.4
Band B	27,849.6	7/9	21,660.8
Band C	19,624.8	8/9	17,444.3
Band D	8,430.5	9/9	8,430.5
Band E	2,773.2	11/9	3,389.5
Band F	1,278.6	13/9	1,846.9
Band G	390.9	15/9	651.5
Band H	6.5	18/9	13.0
	<b><u>82,322.9</u></b>		<b><u>68,078.3</u></b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 68,078 (2022/23 67,153) and multiplying this by the standard Council Tax of £2,058.36 (2022/23 £1,956.28) gives a total estimated income from taxpayers of £140.1M (2022/23 £131.4M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 98.5%, giving a net Council Tax Base of 67,057. Multiplying this by the standard Council Tax of £2,058.36 gives the total precepts on the Collection Fund of £138.0M (66,146 multiplied by £1,956.28 - £129.4M 2022/23).

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

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

The Council in 2023/24 estimated NDR income of approximately £96.8M (2022/23 £91.2M), £47.4M (2022/23 £44.7M) retained by the Council, £1.0M (2022/23 £0.9M) payable to Hampshire and Isle of Wight Fire & Rescue Authority and £48.4M payable to Central Government (2022/23 £45.6M). The Rateable Value on 31 March 2024 was £271.9M (2022/23 £262.1M) and the Business Rate Multiplier for the year 49.9p (2022/23 49.9p) in the £, giving gross rates before reliefs of £135.7M (2022/23 £130.8M).

### 4. Collection Fund Balance

The total Collection Fund surplus carried forward for the year is £7.2M (2022/23 £12.3M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

<b><u>Analysis of Collection Fund Balance</u></b>						
	<b><u>In Year</u></b>			<b><u>Cumulative</u></b>		
	<b><u>Council Tax</u></b> <b><u>(Surplus)/</u></b> <b><u>Deficit</u></b>	<b><u>Business Rates</u></b> <b><u>(Surplus)/</u></b> <b><u>Deficit</u></b>	<b><u>Total</u></b>	<b><u>Council Tax</u></b> <b><u>(Surplus)/</u></b> <b><u>Deficit</u></b>	<b><u>Business Rates</u></b> <b><u>(Surplus)/</u></b> <b><u>Deficit</u></b>	<b><u>Total</u></b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Central Government		2,391	2,391		(4,211)	(4,211)
Southampton City Council	278	2,342	2,620	1,036	(4,127)	(3,091)
Hampshire & IOW FRA	14	48	62	48	(84)	(36)
Hampshire & IOW PCC	43		43	151		151
<b>Balance as at 31 March</b>	<b>335</b>	<b>4,781</b>	<b>5,116</b>	<b>1,235</b>	<b>(8,422)</b>	<b>(7,187)</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. Amortised Cost

A way of measuring financial instruments that ignores changes in fair value.

### 3. Budget

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

### 4. Capital Adjustment Account (CAA)

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

### 5. Capital Expenditure

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

### 6. Capital Receipts

The proceeds from the sale of capital assets.

### 7. Community Assets

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

### 8. 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.

### 9. Council Tax

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

### 10. Creditor

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

### 11. Current Value

The measurement bases for property, plant and equipment, reflecting the economic environment for the service the item is supporting.

### 12. Debtor

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

### 13. Depreciation

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

### 14. Effective Interest Rate (EIR)

The effective interest rate is the true rate of interest earned. It could also be referred to as the

## GLOSSARY

market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

### 15. Fair Value

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

### 16. Financial Assets

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

### 17. Finance Lease

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

### 18. Financial Instrument

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

### 19. Financial Liability

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

### 20. Financial Reporting Standard (FRS)

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

### 21. General Fund

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

### 22. Government Grants

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

### 23. Heritage Assets

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

### 24. Housing Revenue Account

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

### 25. Impairment

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

### 26. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

## GLOSSARY

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

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

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

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

### **29. Materiality**

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, could reasonably be expected to influence decisions that primary users make on the basis of the Financial Statements.

### **30. 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.

### **31. Money Market Funds**

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

### **32. Non Domestic Rates Retention**

Business rate levied on companies, firms etc, collected by the Council as the billing authority and paid in specified shares to Central Government, Southampton City Council and Hampshire and Isle of Wight Fire & Rescue Authority.

### **33. 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.

### **34. Net Expenditure**

Total expenditure for a service less directly related income.

### **35. 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.

### **36. 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.

### **37. Operating Leases**

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

### **38. 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.

### **39. Post Balance Sheet Events**

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

## GLOSSARY

### **40. Prepayments**

Payments made by the Council in advance of goods or services being supplied.

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

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

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

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

### **43. Provision**

A liability of the Council where there is uncertainty about when it will be settled and/or how much the Council will have to pay.

### **44. 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.

### **45. Receipts in Advance**

Payments taken by the Council in advance of goods or services being supplied to recipients.

### **46. Reserves**

The balances in the Balance Sheet that show variously the revenue and capital resources available to support the provision of services by the Council, the cumulative effect of statutory adjustments to manage the availability of those resources for particular financial years, and balances of revaluation gains and losses on assets that have yet to be realised.

### **47. 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.

### **48. 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.

### **49. Revenue Expenditure / Income**

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

### **50. 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;

## **GLOSSARY**

- Long-term contract balances;
- Finished goods.

### **51. Trade Payables**

The amounts that the Council owes for goods and services that it has received in the course of its normal activities but which have yet to be paid for.

### **52. Trade Receivables**

The amounts that the Council is owed for goods and services that it has provided in the course of its normal activities but which have yet to be paid for.

### **53. Treasury Management**

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

### **54. Useful Life**

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

## SCOPE OF RESPONSIBILITY

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

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

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

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

or can be obtained from the:

Director of Legal and Governance and Monitoring Officer  
Southampton City Council  
Civic Centre  
Southampton  
SO14 7LY

This statement explains how the council has complied with the local code and 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; and
- in a timely, inclusive, open, honest, and accountable manner.

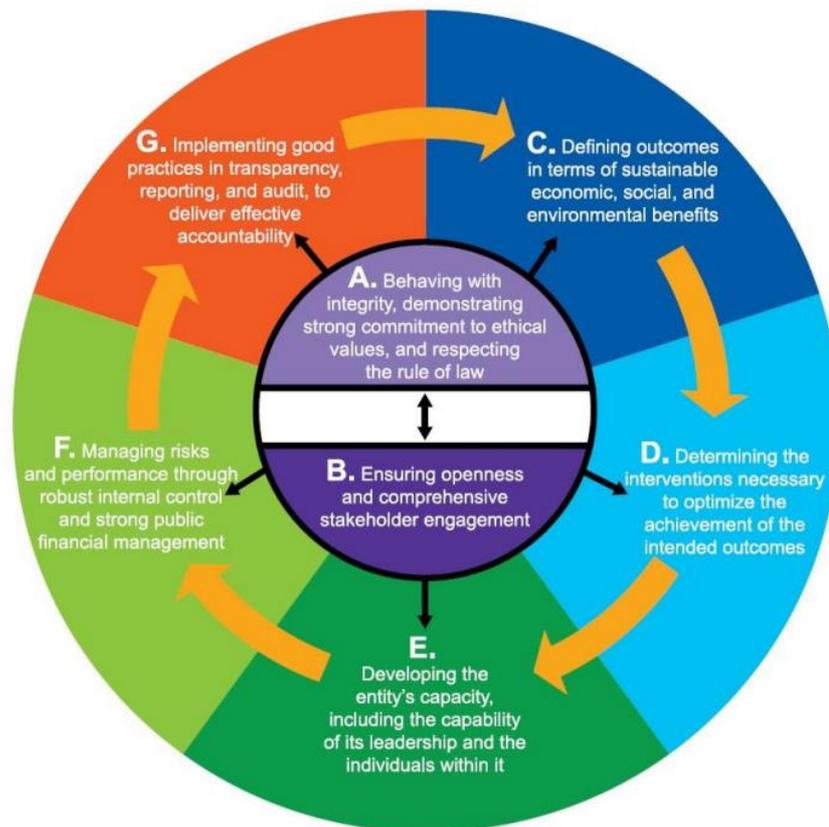
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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 2024 and up to the date of approval of the statement of accounts.

## The Governance Framework

The diagram below, taken from the International Framework: Good Governance in the Public Sector, illustrates the various principles of good governance in the public sector and how they relate to each other.



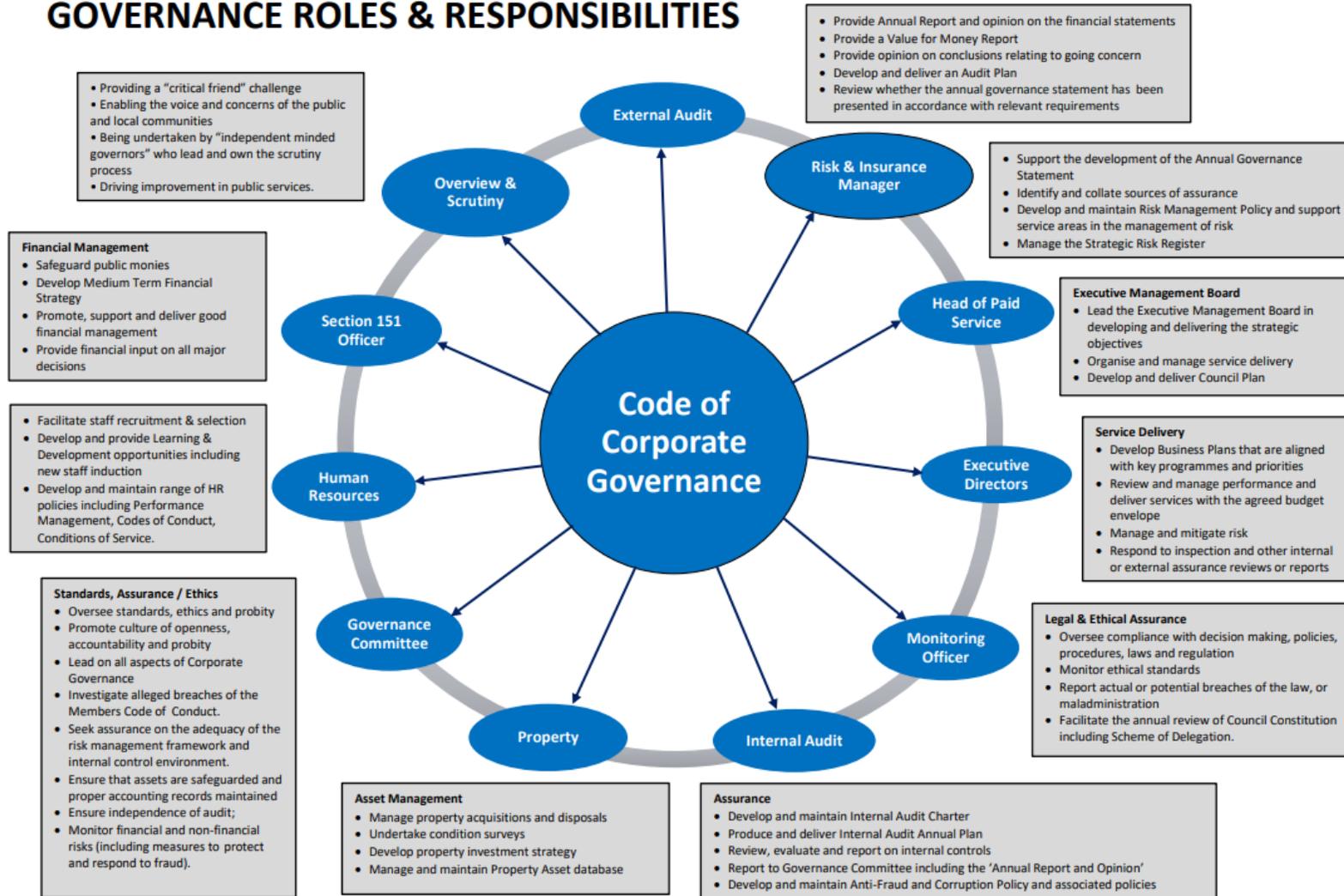
The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering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

The council's governance framework comprises:

- A suite of governance and strategic policies and documents;
- Its systems and processes of governance;
- The council's culture and people that direct and control the authority and its activities and through which it engages with the community and other stakeholders.

# ANNUAL GOVERNANCE STATEMENT - DRAFT

## GOVERNANCE ROLES & RESPONSIBILITIES



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### **Principle 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 Director of Legal and Governance is the '**Monitoring Officer**' and has responsibility for ensuring compliance with established policies, procedures, laws, and regulations, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

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

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

The council also participates in the Cabinet Office's **National Fraud Initiative** which is a data matching exercise to assist in the prevention and detection of fraud. The council is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise.

Investigations and special reviews into suspected fraud or irregularities are overseen by an '**Investigation Steering Panel**', comprising the Monitoring Officer, Chief Internal Auditor and the Section 151 Officer (Executive Director of Corporate Services).

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

In addition, a "paper" complaints form is made available at "in person" contact points e.g. Libraries and Housing Offices etc, to make complaints, compliments and comments accessible to those without internet access.

On an annual basis the Director of Legal and Governance and Monitoring Officer presents a report to the council's Governance Committee on 'Local Government and Social Care Ombudsman Complaints' and a

## ANNUAL GOVERNANCE STATEMENT - DRAFT

separate 'Annual Review of Complaints' report.

The council's **'Social Value and Green City Procurement Policy'** aims to ensure that Council's suppliers, bidders and other stakeholders are aware of the Council's commitment to long-term social, ethical, environmental and economic sustainability and how they are expected and required to contribute.

The council also has in place a **Modern Slavery and Human Trafficking Statement** which sets out the Council's current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains. In addition, Modern slavery and human trafficking is included within the council's safeguarding training for children and adults as well as there being e-learning training and associated guidance available to all staff.

### **Principle B: Ensuring openness and comprehensive stakeholder engagement**

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

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

Southampton City Council runs a broad city survey every few years to collect resident views on a range of topics. It provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. **Surveys have been conducted in 2014, 2016, 2018 and 2020.** Each year a set of common Local Government Association (LGA) questions are included, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time, as well as questions relating to emerging priority areas. The latest survey ran between October 2020 and December 2020 and included questions on:

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

The results from the 2020 Southampton City Survey, together with past reports, can be downloaded from the Southampton Data Observatory. **The next City Survey is planned for later in 2024.**

The council has in place a **'People's Panel'**, which is open to any resident over the age of 18 to join, and 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 and provides an opportunity to influence how services are delivered, highlight issues, and help shape public services in the community. 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 our surveys have been used to inform a number of decisions and service changes. 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

## ANNUAL GOVERNANCE STATEMENT - DRAFT

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 children and young people in the city, and in 2022, Southampton City Council started working with UNICEF UK to become a **Child Friendly City**. The programme aims to create cities and communities in the UK where all children – whether they are living in care, using a children’s centre, or simply visiting their local library – have a meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives.

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

The council has in place a **2022-30 Corporate Plan** which sets out the council’s direction for the next eight years and shows how it will play its part in fulfilling the city’s huge potential. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People and supports key internal strategies.

The **Corporate Plan was updated in March 2024** to reflect the financial pressures facing the council and the strategy to achieve financial stability through transformation and economic growth. The core goals within the Corporate Plan have been reviewed and refined, with outcomes that focus on improving the lives of residents and growing the economic and health prosperity of our city. Strategic objectives have been developed that provide more specifics around areas of focus to make that step-change, and the business planning framework will ensure the work of all areas of the council are aligned to the achievement of these objectives, outcomes, and goals.



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As part of this update the **employee values** were also reviewed and have been evolved to reflect how individuals and service areas work best together in challenging times of great opportunity.



A **Corporate Performance Framework** is in place, and being further developed to ensure that there is the right overview of performance across the organisation. As part of this, a regular Key Performance Indicator (KPI) report is to be developed to ensure council performance is aligned with the Corporate Plan and demonstrate progress towards achieving the outcomes and objectives. These reports will be shared and discussed within the council regularly to ensure that progress is being made and updates will also be provided on the council's website.

There are also other key strategies that reflect the vision and ambition of both the city and wider region, including the **Southampton City Strategy** (2015-2025) which is a partnership strategy that sets out the vision for the whole city. The strategy was developed in partnership with representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

At a sub-regional level there is a triumvirate of key strategic organisations, the **Partnership for South Hampshire ('PfSH')**, the **Solent Local Enterprise Partnership ('LEP')** and **Solent Transport**, that manage the policy agenda in the sub-region.

The **PfSH** is a partnership of twelve local authorities around the Solent, including Southampton City Council, that aims to improve the environmental, cultural, and economic performance of the South Hampshire area. The PfSH brings the partner organisations together at both a political and managerial level with a 2021-2025 Business Plan that sets out the focus of its' work. The PfSH is focused on supporting economic growth, delivery of housing and the infrastructure to achieve this in a sustainable manner, and to maintain and enhance the quality of the environment. The PfSH work will be a key element in developing statutory planning policy for the city by [a] demonstrating at a strategic level that the 'duty to cooperate' requirements are being achieved and [b] in helping to identify how housing growth and related infrastructure can be delivered to meet the needs of the city within a sub-regional context. The PfSH engages with a range of other local organisations, stakeholders, and Government to achieve these aims.

**Local Enterprise Partnerships (LEPs)** are non-statutory bodies that were created to promote economic growth and job creation. They are business led partnerships with additional representatives from local authorities, as well as academic and voluntary institutions. The Solent LEP was established in 2010-11 with the board s drawn from the area's key business, universities, the further education sector, and local authorities. In August 2023 the Government issued a letter confirming their support for Upper Tier Local Authorities ('UTLAs') to take on the functions currently delivered by LEPs and made it clear that they will no longer fund LEPs with core funding from April 2024.

The Government requested that UTLAs submit an integration plan on or before the 30 November 2023, for the integration of LEP functions. The three Solent UTLAs, Southampton, Portsmouth, and the Isle of Wight, submitted an integration plan and have determined to form a partnership to deploy the devolved responsibilities of the Solent LEP. The Solent LEP has confirmed that they intend to cease operating as soon as possible after 31st March 2024 and have set up an alternative company, Solent Partners, with aspirations to continue to support the economic development agenda in the Solent.

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**Solent Transport** is a sub-regional transport partnership that comprises Portsmouth, Southampton, the Isle of Wight, and Hampshire County Council. Solent Transport and its partner bodies are important members of Transport for the South East. 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.

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing **dialogue over devolution of powers through a 'County Deal'** approach. Hampshire County Council unilaterally submitted their prospectus for a County Deal to Government in October 2022. Subsequent discussions between Government officials and Chief Executives of the upper tier authorities took place, but it would require a substantial amount of work, if any deal was able to progress, with geography and governance remaining as critical issues.

Southampton Council is a Member of the **Solent Freeport consortium**. The Solent Freeport will encompass Southampton and Portsmouth, as well as areas of the New Forest, Isle of Wight, and southern Hampshire. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery, boosting the local economy and creating additional local jobs. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivize private sector investment.

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

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

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

In 2022 the Council, through the Local Government Association (LGA) , commissioned the **Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review** to assist the council to consider how it might enhance its approach to governance and decision-making. The CfGS is a nationally recognised charity which supports local authorities to ensure sound governance practices are in place and is an independent body and this work was undertaken at no cost to the council. In particular the review considered and commented on:

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- The consistency of decision-making systems
- The speed of those systems
- Clarity in who leads on, and makes, decisions
- Checks and balances with regard to the above
- The expectations of both members and officers with regard to the above

The review was based on a range of interviews with members and officers, detailed examination of a very small number of decisions, supplemented by a more general review of Cabinet and scrutiny committee papers, the Forward Plan and other relevant material. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the council's Governance Committee in November 2022. Following that, a 10-point Action Plan was agreed by Governance Committee in November 2022 and incrementally implemented in 2023.

The CfGS carried out a follow up review in Winter 2023. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESAs (impact assessments) were to be progressed through externally facilitated workshops by CfGS and the LGA. Unfortunately these had to be deferred due to CfGS's work programme being refocused to support other authorities, but are being planned for June 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is in the early planning and scoping stages for 2024/25.

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

The council has had a new **People Strategy** in place since the beginning of 2023, called '**Our People**' that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. Our People sets out a high-level vision, priorities, desired outcomes, with an action plan to drive this forward.

Our People strategy sits alongside 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, organisational development, and drive positive change and the delivery of agreed outcomes.

The council has in place leadership development modules for senior leaders intended to allow them to learn, and share insights and expertise based on the following development areas:

- Continuous Improvement
- Creativity, Innovation and Commercial Mindset/Entrepreneurial
- Cultural Change
- Leading Change
- Making Difficult Decisions
- Performance Management

There are also learning modules and programmes in place aimed at people new to line managing others, existing team leaders, and managers up to middle managers. These are based on the council's core values and built around the leadership competencies with one of the modules being 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these.

In respect of Elected Members, a revised internal **Member Induction and Development programme** was delivered that offered a suite of learning and development opportunities via targeted service focused sessions or via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association and South East Employers. These opportunities ranged from 'being a new councillor', supported skill development such as chairing meetings, to portfolio based learning and leadership development training. The LGA have also offered coaching programmes for newly elected Cabinet Members. Members are asked for

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feedback on the programme and their feedback is incorporated as part of the annual review and refresh to ensure we continue to offer a comprehensive and wide ranging suite of learning and development opportunities to support all members.

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.

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

The council's **Governance Committee** has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance. The Committee receives a range of periodic reports relating to both the internal control environment and financial management, including receiving the draft Statement of Accounts.

Risk management is an essential component of the Council's overall governance and internal control arrangements and provides the framework and processes to enable the council to manage risk in a systematic, consistent and efficient way. The council has in place a **Risk Management Policy 2022-25** which is intended to assist officers, at all levels, in applying sound risk management principles, practices and judgement across their areas of responsibility. It is also relevant to Members in their capacity as 'decision takers' and the Governance Committee in respect of its responsibility for overseeing the Council's risk management processes and arrangements.

The Governance Committee receives an **Annual Risk Management report** that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months.

A key element of the council's risk management framework is the council's **Strategic Risk Register** which is developed in consultation with Executive Directors. Strategic risks are those risks that are of significant, cross-cutting importance to the council such that they are considered to require the attention and oversight of the council's senior management team. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Executive Management Board. The report 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.

In addition to the council's Strategic Risks, it is recognised there are other significant risks within individual directorates relating to the services, actions or activities being delivered or undertaken. During 2023 the council's Executive Management Board agreed that **Directorate Risk Registers** should be developed to capture those significant risks within the service areas that may not be considered as cross-cutting or of be of such significance that they would be considered a 'strategic risk'. The risks captured in a 'Directorate Risk Register' would typically be aligned with the Service Business Plan in terms of the potential impact on the delivery of the key service priorities and objectives.

Effective financial management is key to managing the delivery of council services. The council's **Medium Term Financial Strategy ('MTFS')** provides the strategic financial framework and forward-looking approach to financial planning for the council and is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, local factors and helps the council to plan

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for these to pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges. The MTFs recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

Against a backdrop of a challenging economic climate, the council is facing significant pressures however it is focused on right sizing its expenditure and budgets to meet the resources available whilst delivering on the Corporate Plan. There is full recognition of the financial situation and a new **Financial Strategy** was developed and implemented during 2023/24, and is for 2024/25 onwards, which aims to balance the council's finances in the medium term.

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the **Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation**, and later in the year to conduct a review of forecasts to provide external validation. CIPFA's report highlighted the reliance on reserves to meet gaps in the council's budget. This has led to balanced budgets being achieved but has eroded the council's reserves. CIPFA recommended that a plan to replenish reserves should be put in place, and that the council needed to immediately put in place tight controls over savings delivery, cash limit spending and develop mitigation plans for non-delivery of these. The new financial strategy, which is informed by CIPFA's findings, sets out the following five steps to achieve the aim of stabilising the council's general fund account to create a sustainable council:

1. Review budgets to establish the financial position.
2. Right sizing the budget to ensure there is clarity on affordable expenditure levels.
3. Stabilisation to remove in year overspend and ensure the structural deficit has been addressed and reliance on reserves removed.
4. Sustainable budget to ensure the council is sustainable and able to withstand economic and financial shocks.
5. Purposeful investment – all investment, either revenue or capital, to have a clear purpose and strong business case.

A number of recommendations to strengthen the council's financial management arrangements were also made by CIPFA following its review and a '**Financial Management Improvement Plan**' has been developed to address those recommendations.

The council made an application to the government for Exceptional Financial Support (EFS) to help balance the 2024/25 budget and provide for other costs and potential liabilities. Confirmation was received in a Ministerial Statement on 29 February 2024 that the government was minded to support the council by providing an EFS facility for 2024/25. The EFS will be in the form of a 'capitalisation direction', which will allow the council to treat revenue costs as capital expenditure and fund these from capital receipts or borrowing. There are two conditions attached to the EFS – firstly, the council must produce a Transformation and Improvement Plan and secondly, the government will commission an External Assurance Review on the council's use of EFS and progress in its plans to close the structural budget deficit in 2025/26 and beyond.

An **Improvement Board** was established in 2023 with external subject matter experts providing critical challenge and overseeing the progress to a sustainable budget.

The council's financial management arrangements conform to the governance requirements of the CIPFA '**Statement on the Role of the Chief Financial Officer** ("CFO") in Local Government. The Executive Director of Corporate Services (Section 151 Officer and CFO) is professionally qualified and is a key member of the Executive Management Board and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

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During 2023/24 a **revised business planning framework** was drafted which aligns all business planning activity to strategic objectives, savings proposals and change activity, enabling both short-term challenges and longer-term goals to be addressed. Due to the council's challenging financial position, the focus in 2023/24 was on ensuring that savings proposals were identified, and cash limited budgets achieved however service level business plans, using the revised framework, will be in place in 2024/25.

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

### **Principle G: Implementing good practices in transparency, reporting, and audit, to deliver effective accountability**

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

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

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 are 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** (2019 Edition)'. This is aligned with 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.

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 (e.g. 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 Corporate Services (Section 151 Officer), Chair of the Governance Committee, Director of Legal and Governance and Monitoring Officer, and the Chief Internal Auditor.

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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 periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as '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, reported to the Governance Committee, including the Audit Planning report, the Annual Audit Letter, the Audit Results Report, and the Auditor's Annual Report.
- The Chief Internal Auditors 'Annual Report and Opinion' for 2023-24 was that.... **To be reported to the Audit Committee in July [note: the overall assurance level is expected to remain at 'Limited Assurance' with a continuation of the themes referred to last year around emerging strain on the control environment associated with delivery of organisational and transformational change]**
- 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 'AGS Self-Assessment Statements' completed by Heads of Service and reviewed by the relevant Executive Director. The self-assessments 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.
- 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 and including any external reviews that the council may choose to commission such as the exercise undertaken by the Centre for Governance and Scrutiny or CIPFA
- The Annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

When the 2023/24 budget was agreed it was evident the council faced significant and serious budget challenges with a heavy reliance on reserves. As a result of this the Chartered Institute of Public Finance and Accountancy (CIPFA) were engaged in the Spring of 2023 to review the financial management and the financial resilience of the organisation and later in the year to conduct a review

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of forecasts to provide external validation. Despite implementing a new financial strategy and taking actions during the year to reduce net spend including implementing a cost control panel, a balanced budget for 2024/25 was only able to be achieved with Exceptional Financial Support (EFS) from the government. Subject to meeting the conditions attached to the EFS offer, this will allow revenue expenditure to be capitalised in 2024/25 and provide time for the development and implementation of a transformation programme to bring service delivery back within the resources available in future years. The next financial year (2024/25) will be a critical year for the council as it implements measures to restore financial stability and sustainability and addressing the structural budget deficit (circa £40M for 2024/25).

To strengthen the council's financial management arrangements CIPFA made a number of recommendations following its review and a '**Financial Management Improvement Plan**' was subsequently developed and approved.

**Planned Action:** The agreed '**Financial Management Improvement Plan**' is implemented in 2024/25 together with delivery of a '**Reshaping Financial Management Project**'. These have been established to secure improvements in financial management across the organisation and will be fundamental in terms of supporting effective delivery of the agreed transformation plans in 2024/25 and beyond.

**Responsible Officer:** Director of Finance / Executive Director Enabling Services

**Target date for completion:** End Q4 2024/25

### 2. Governance Issue

In 2022 the Council commissioned the Centre for Governance and Scrutiny (CfGS) to undertake an informal peer review to assist the council to consider how it might enhance its approach to governance and decision-making. A 10-point Action Plan arising from their report was formulated and agreed with the actions implemented throughout 2023/24. The significant (and ongoing developmental) actions in respect of improved report writing and consistency of approach to formal decision making including specifically ESIA's (impact assessments) had to be deferred.

**Planned Action:** This action was intended to be addressed via externally facilitated workshops by the CfGS and the LGA however this had to be deferred due to the CfGS's work programme being refocused to support other authorities. These are now being planned for June 2024.

Additionally, a more fundamental review of both corporate governance and the Constitution is in the early planning and scoping stages for 2024/25.

**Responsible Officer:** Service Director Legal and Governance and Monitoring Officer/ Executive Director Enabling Services

**Target date for completion:** End Q1 2024/25

### 3. Governance Issue

One of the conditions attached to the Exceptional Financial Support is that the council must produce a Transformation and Improvement Plan. This will have an impact on the capacity of and reliance on key staff during this period of significant change.

**Planned Action:** As the detailed scoping of the transformation and change programme develops the demand on roles across the organisation is being mapped together with an assessment of the overall requirement. Wherever possible and reasonable, resource will be utilised across multiple projects/programmes to maximise capacity. Additional resource will be required and some is already being secured. A prioritisation exercise will be undertaken once the full picture is better understood.

**Responsible Officer:** Director of Strategy and Performance / Transformation Director

**Target date for completion:** July 2024

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### 4. Governance Issue

Whilst service business continuity arrangements were used in response to Covid such that critical services were maintained and corporate BCP structures worked, they are required to be reviewed periodically to ensure that they remain fit for purpose and reflect current working arrangements and services. Completion of the plans will also allow IT to understand the requirements/expectations of service areas in respect of critical IT reliant activities.

**Planned Action:** Directorate-level draft Business Continuity plans are being reviewed with support provided by the Emergency Preparedness, Planning & Response Team to 'Critical Activity Owners' using a new revised template.

**Responsible Officer:** Head of Emergency Preparedness, Planning & Response/ Executive Director Resident Services

**Target date for completion:** December 2024

### 5. Governance Issue

During 2023-24 it was identified that a reinvigorated business planning approach needed to be designed to better support business and budget planning over the short and medium term and be aligned with the new Corporate Plan.

The revised business planning framework, which aligns strategic objectives, savings proposals and transformation activity to the Corporate Plan and the MTFS, was developed in 2023-24 however the roll out of the new approach was deferred due to the focus being on the significant financial challenge and recognising the need for it to be aligned with the new Financial Strategy.

**Planned Action:** Roll out and embed the new Business Planning process. This will be supported by a cross organisational Business Planning & Performance group which is responsible for appropriate application of the framework and continuity of business planning across SCC, including ensuring that plans are shared across the group and more widely so that each area is fully understood and supported by others. Through the planning process, agreed performance measures will be identified, tracked and reported on at appropriate regularity. The framework approach also addresses risk identification, mitigation and tracking of actions.

**Responsible Officer:** Director of Strategy and Performance

**Target date for completion:** December 2024

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

.....  
**Andrew Travers**  
Chief Executive

On behalf of Southampton City Council

.....  
**Councillor Lorna Fielker**  
Leader of the Council

## AUDITOR'S REPORT