



# DRAFT STATEMENT OF ACCOUNTS 2009/10

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# EXPLANATORY FOREWORD

## FINANCIAL STATEMENTS

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Southampton City Council are by their nature both technical and complex. Consequently this foreword explains some of the statements and sections included within this document and provides a summary of the authority's financial performance for 2009/10.

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 you, as a stakeholder of the council, that we have properly accounted for all the public money we have received and spent and that the financial standing of the council is on a secure basis.

The council's Statement of Accounts concentrates on clear and accurate reporting of the financial position of the council in relation to a particular year. It does not however aim to fulfil the role of an annual report of a company. This would duplicate much of the work already published in other documents produced by the council – in particular the City of Southampton Strategy, the Medium Term Service and Financial Plan and the Corporate Improvement Plan.

The statements and notes are:

Accounting Policies	p8-22
This statement details the Accounting policies followed by the Authority during 2009/10.	
Responsibilities for the Statement of Accounts	p23
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Income and Expenditure Account	p24
This statement reports the net cost for the year of all the services provided by the Council, including the HRA but excluding the Collection Fund. It demonstrates how the costs have been financed from general government grants and income from local taxpayers.	
Statement of the Movement on the General Fund Balance	p25-26
The statement brings together the surplus or deficit for the year from the Income and Expenditure Account, plus the net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year. It also shows the balances brought and carried forward.	
Statement of Total Recognised Gains and Losses	p27
The statement brings together all the gains and losses for the year. It includes the surplus or deficit on the Income and Expenditure Account for the year, the surplus or deficit arising on revaluation of fixed assets, any actuarial gains and losses on pension fund assets and liabilities plus any other gains and losses.	
Balance Sheet	p28
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2010.	
Cash Flow Statement	p29
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.	

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Notes to the Core Financial Statements	p30-74
Housing Revenue Account (HRA) This account summarises the transactions relating to the provision, maintenance and sales of Council houses and flats.	p74-81
Collection Fund The statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.	p82-84
Trust and Other Funds This statement shows receipts and payments of funds for which the Council acts as trustee.	p85-89
Glossary	p90-94
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## FINANCIAL SUMMARY

The Statement of Accounts brings together all the financial activities of the Council for the year.

### Revenue Account Summary

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

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

### Comparing Actual Spending to Budget

Our net expenditure budget for the year was set at £179.2M and was supported by a council tax increase of 2.94% (which gave a Band D council tax of £1,208.97 for Southampton City Council).

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

- £79.85M of business rates (National Non-Domestic Rates from the Pool)
- £18.43M of general government grant (Formula Grant)
- £79.38M of council tax income and
- £1.54M Collection Fund surplus

It also assumed a contribution from general reserves and working balances of £3.2M.

The original budget plans were updated during the course of the year and the contribution from working balances was revised to £3.9M compared to the originally planned £3.2M, an increase of £0.7M.

The final outturn for the year was £174.6M and we were able to contribute £4.6M to working balances instead of taking £3.9M from them.

Overall, there was a net reduction in the use of the Authority's reserves and general balances in the year of some £8.5M compared with the working budget.

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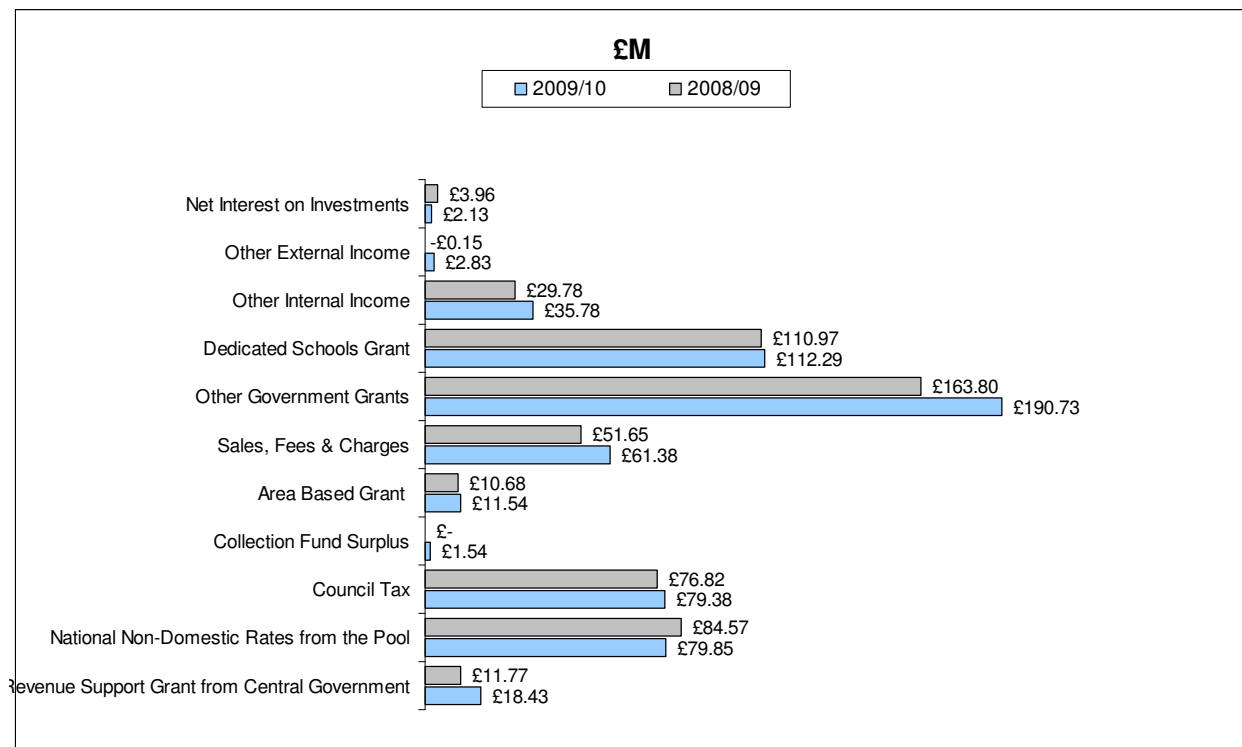
## Explaining the big differences

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

	£000's
Savings in Portfolio budgets	(3,274)
Net Additional income on investments	(688)
Reduced revenue contribution to capital spending	(1,547)
One off Fleming Case Income (HMRC)	(2,733)
Unspent Contingencies	(250)
Re-phasing of Project Costs (Funded from within the Revenue Development Fund)	(231)
Other Variances	176
	<b>(8,547)</b>

## Where the Money Came From

The following chart provides an analysis of our main sources of income for the year and also shows the comparative figures for 2008/09.



# EXPLANATORY FOREWORD

## Where the Money Went

The following table provides a high level summary of our net expenditure.

<b><u>GENERAL FUND REVENUE EXPENDITURE 2009/10</u></b>				
<b>Revised Budget £000's</b>		<b>Working Budget £000's</b>	<b>Actual Expenditure £000's</b>	<b>Variance £000's</b>
48,651	Adult Social Care & Health	49,141	50,279	(1,138)
29,387	Childrens Services	31,541	32,019	(478)
3,789	Economic Development	3,779	3,752	27
24,684	Environment & Transport	27,003	24,955	2,048
11,576	Housing & Local Services	11,576	11,243	333
5,190	Leader's Portfolio	5,200	4,839	361
7,850	Leisure Culture & Heritage	7,865	7,662	203
35,820	Resources & Workforce Planning	36,790	35,061	1,729
<b>166,947</b>	<b>Sub-total for Portfolios</b>	<b>172,895</b>	<b>169,810</b>	<b>3,085</b>
23,375	Other items	19,326	19,137	189
<b>190,322</b>	<b>Portfolio Total</b>	<b>192,221</b>	<b>188,947</b>	<b>3,274</b>
529	Levies & Contributions	529	594	(65)
(13,691)	Capital Asset Management	(13,691)	(14,379)	688
5,606	Other Expenditure & Income	4,079	(571)	4,650
<b>182,766</b>	<b>NET GF SPENDING</b>	<b>183,138</b>	<b>174,591</b>	<b>8,547</b>
(3,570)	Draw from Balances:	(3,942)	4,605	(8,547)
<b>179,196</b>	<b>Budget requirement</b>	<b>179,196</b>	<b>179,196</b>	

The above summary of General Fund Revenue expenditure can no longer be directly reconciled to the Income and Expenditure Account due to the changes in format introduced in 2006/07. At this point, the Consolidated Revenue Account was replaced by the Income and Expenditure Account and the Statement of Movement on the General Fund Balance. The above summary excludes items in the Income and Expenditure Account such as the Housing Revenue Account, pension costs due to FRS17 requirements and some capital charges.

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

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	£000's
Salaries & Wages	113,284
Other Employee Costs	7,217
Premises Costs	15,769
Transportation Costs	7,639
Supplies & Services	100,503
Internal Charges	7,832
Other Direct Costs (Includes School Allocations)	208,139
<b>Total Expenditure</b>	<b>460,383</b>
Internal Income	(31,563)
Fees, Charges & Rents	(52,152)
Grants / Contributions	(206,858)
<b>Total Net Expenditure</b>	<b>169,810</b>

### Capital Summary

Our capital account shows the income and expenditure transactions we make when we:

- buy or sell land, property or other assets
- build new property
- improve our properties or other assets
- provide grants or loans to others for the above type of activity

### Comparing actual spending to budget

The budget for the year was to spend £98.8M on capital projects. Our final capital spend for the year was £14.8M less than the budget at £84.0M.

The table below summarises the capital expenditure for the year.

	Budget £000	Actual £000	Variance £000
Children's Services & Learning	20,121	17,865	2,256
Environment & Transportation	20,188	16,723	3,465
Economic Development	8,327	5,433	2,894
Adult Social Care & Health	1,862	1,382	480
Housing & Local Services	6,824	6,565	259
Leisure, Culture & Heritage	4,136	2,827	1,309
Resources & Workforce Planning	4,965	3,677	1,288
<b>Total General Fund</b>	<b>66,423</b>	<b>54,472</b>	<b>11,951</b>
HRA	32,426	29,595	2,831
<b>Total</b>	<b>98,849</b>	<b>84,067</b>	<b>14,782</b>

# EXPLANATORY FOREWORD

## Explaining the big differences

The final spend for the year was £14.8M lower than the budget mainly due to slippage on schemes which will now be spent in 2010/11. Some of the major slippage was on the following schemes:

- Lift Refurbishment - £1,412k
- No 1 Guildhall Square Deposit - £1,250k
- Northern Above Bar (Guildhall Square) - £1,208k
- Strategic Purchase of Sites - £1,023k
- Relocation of Town Depot - £873k
- Tudor House Museum - £718k
- Primary Rebuild – Harefield - £581k
- Play Areas - £562k
- R & M backlog - £503k

## Where the money came from

The table below shows how we paid for our capital spending:

	£000
Supported Borrowing	10,416
Unsupported Borrowing	14,504
Capital Receipts	6,744
Capital Grants	20,604
Contributions	2,496
Direct Revenue Financing	14,242
Major Repairs Allowance	15,061
<b>Total</b>	<b>84,067</b>

## Reserves and Balances Summary

Sound financial management and a strong track record of striking the right balance between spending and the need to maintain a core level of resources to support the revenue account means that our finances are in a healthy state.

We maintain a number of earmarked reserves. These are special reserves we keep for specific types of expenditure.

We also maintain a general reserve to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure. The final balance at 31 March 2010 was £19.8M.

Our revenue working balance provides us with day-to-day cash flow cover for our revenue account because inevitably there is a mismatch between the money being paid out and the money coming in. We added £4.6M to working balances in the year.

## ACCOUNTING ISSUES AND DEVELOPMENTS

The 2009 SORP has introduced some changes to local authorities' financial statements. The key changes are:

## EXPLANATORY FOREWORD

- **PFI / IFRIC 12 Service Concessions**

In preparation for International Financial Reporting Standards (IFRS), the SORP requires some Private Finance Initiatives (PFI)/ Service Concession arrangements to be accounted for in accordance with IFRIC12 (International Financial Reporting Interpretations Committee). That is they should be included on Balance Sheet where previously they were off Balance Sheet. This has resulted in Fixed Assets and their corresponding Liabilities being brought onto the Balance Sheet as if they had always been treated as on Balance Sheet (See note 2 to the Core Financial Statements)

- **Collection Fund**

Council Tax and NNDR Income, following a Change in Accounting Policy, are now required to be accounted for on an Agency basis, and Council Tax income included in the Income and Expenditure Account for the year is now on an accrued income basis for the year, as opposed to a regulations basis (See note 2 to the Core Financial Statements)

- **Disclosure Note Changes**

A number of Disclosure Notes are no longer required within the Financial Statements and have therefore been removed i.e.:

- Section 137 Expenditure;
- Expenditure on Publicity;
- Building Control Trading Account;
- Business Improvement District Schemes; and
- Local Authority (Goods and Services Act 1970)

## CONTINUING IMPACT OF THE RECESSION

The current economic climate has continued to have a major impact on the Council's financial position during 2009/10, namely in three areas:-

- A loss of income from fees and charges which is expected to continue into 2010/11.
- A drop in income from investments due to sustained low interest rates.
- A reduction in capital receipts from the sales of land and property which continue to be less than forecast impacting on many key schemes in the City which have either been put on hold or abandoned.

Despite these issues, the Council was able to approve a balanced budget for 2010/11 that took these losses into account. The Council has also continued with the policy decision taken last year to suspend the sale of any major assets until such time as the market picks up.

The economic situation and the ongoing uncertainty in the banking sector have had an impact on the management of the Council's cash flow. In order to balance the fall in investment income a conscious decision was taken to switch to short term debt which is currently available at lower rates than long term debt due to the depressed market. As a result the average rate for repayment of debt, (the Consolidated Interest Rate – CRI), has reduced from 4.35% in 2008/09 to 1.95%. As this is a temporary arrangement, any savings have been transferred to an Interest Equalisation Reserve, until the Council locks back into long term debt. In addition, to the ongoing uncertainty the Council has continued to adopt a prudent approach to risk within its investment portfolio and its loan portfolio is structured to lessen its overall exposure in the investment market.



# ACCOUNTING POLICIES

## 1. General

The Statement of Accounts summarises the council's transactions for the 2009/10 financial year and its position at the year-end of 31st March 2010. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A statement of Recommended Practice (the SORP)*. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

## 2. Accrual Accounting

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

- Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided.
- 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 stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowing and receivable on investments is accounted for 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 income and expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure items are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

## 3. Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NDR). The fund key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing authority the council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
- Up to 2008/09 the SORP required the Council Tax income included in the Income and Expenditure Account to be that which under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009 the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

# ACCOUNTING POLICIES

- Since the collection of Council Tax and NNDR Income is in substance an agency arrangement:

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

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

## 3. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year. The reserve is then appropriated back to the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council.

Reserves include earmarked balances which represent sums set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and some may only be used for specific statutory purposes. The Revaluation Reserve, Useable Capital Receipts Reserve and the Capital Adjustment Account are examples of such.

Transactions for 2009/10 can be seen within the Statement of Reserves in **note 31**.

## 4. Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. 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 to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

## ACCOUNTING POLICIES

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Provisions are explained in more detail in *note 30*.

### 5. Government Grants and Contributions

#### Revenue

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, where there is reasonable assurance that the monies will be received and the expenditure for which the grant has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant, ABG) are credited directly to the Income and Expenditure Account below Net Operating Expenditure.

#### Capital

Government grants and contributions relating to fixed assets with a finite useful life are credited to a government grants deferred account and released to the service revenue account in line with the depreciation of the asset. Where a grant or contribution cannot be identified to a particular asset which will be depreciated, the grant or contribution is credited to the Income and Expenditure Account. The credit is then reversed out to the Capital Adjustment Account in the Statement of Movement on the General Fund Balance.

### 6. Retirement Benefits

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teacher's Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pension Scheme, administered by Hampshire County Council.

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

As part of the Council's Strategic Services Partnership contract, Capita have admitted body status within the Hampshire pension fund. The staff that transferred to Capita are treated as being part of Southampton City Council (SCC) for accounting and reporting purposes in respect of pensions. As part of the agreement between SCC and Capita, all (or nearly all) pension risks, and assets and liabilities lie with SCC. Capita are under a legal obligation to pay the employee and employer contributions to Hampshire pension fund direct. SCC then reimburse as a 'pass through' cost the full cost to Capita of the employers contributions they have incurred – in effect meaning that SCC has funded the employer contributions incurred for transferred Capita staff.

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

- Assets and Liabilities of the fund will not be split between SCC and Capita – so the 'Liability Related to Defined Benefit Pension Scheme' under Long Term Liabilities in the

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balance sheet will include the total liability in respect of both SCC employees and employees now transferred to Capita.

- The total amount charged to Net Cost of Service in the Income & Expenditure Account will therefore include the total value of Current Service Costs and Past Service costs as provided by the actuaries; this figure will therefore include the cost of retirement benefits earned by both SCC employees and employees transferred to Capita.
- The Pension Interest Costs & Expected Return on Assets in the Income & Expenditure Account will be reflective of SCC's share – including the Capita element.
- The SCC actual pension fund contributions for 2009/10 will be excluded from SCC's accounts, and will be a reconciling item in the Statement of Movement on the General Fund Balance (in the section Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund for the Year)
- The accounts will therefore reflect the full FRS17 position of the Authority including the Capita element.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire County Council pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected 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 SORP.
- The assets of the Hampshire County Council pension fund attributable to the council are included in the balance sheet at fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

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

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
2. 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 Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.
3. Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure in the Income and Expenditure Account.
4. Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
5. Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of

## ACCOUNTING POLICIES

benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs.

6. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
7. Contributions paid to Hampshire County Council – cash paid as employer's contributions to the pension fund.

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 Statement of Movement on the General Fund Balance this means there are appropriations to and from the Pensions 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 requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by £297,970k in 2008/09 and by £408,990k in 2009/10.

The total liability of £408,990k has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good over time by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary. For further information please see **note 38**.

### Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 7. VAT

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

The Council followed the HMRC guidance to manage the change in the standard rate of VAT (1 January 2010) from 15% back to 17.5%, ensuring that VAT continued to be correctly accounted for.

## 8. Overheads and Support Services

The current accounting policy for overheads is that all services should bear an equitable proportion of the overheads of the Council. Support Service costs are recharged to services on a variety of bases e.g. Agreed Annual Charge, Time Allocation, Unit Rates which reflect the benefit from the supply or service in accordance with the principles of the CIPFA *Best Value Accounting Code of Practice 2008*. The exceptions to this are :

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.

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- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Service.

## 9. Intangible Fixed Assets

Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal right”. The types of assets normally included within this definition are purchased software. Intangible assets are amortized to service revenue accounts (from the year following acquisition) over their economic lives. These assets are initially recognised in the balance sheet at actual costs incurred.

## 10. Tangible Fixed Assets

Where the Council benefits from an asset for more than one financial year, all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis and has been recognised in the value of fixed assets in the balance sheet. By definition, this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

### Valuation

The basis of valuation is dependent on the type of asset. The categories are:

**Operational** - Land, property and other assets used for service provision are called ‘operational assets’. Land and property are included in the balance sheet at the Open Market Value for their present use when there is sufficient evidence to support the value, or at Depreciated Replacement Cost. The exception to this rule is Council Houses, which are valued on the “Beacon” method. This involves establishing a value over a range of types and ages of property, which is then applied to the housing stock. Stock valuation information is based as at 1 April of each year and as part of resource accounting requirements. This value is then uplifted, via indices to represent the value at the 31 March. Following an internal audit review the Southampton land registry index is now used as opposed to the South East England index which was overstating the uplift. An allowance is made for discount on the sale of stock.

Vehicle, plant and equipment are initially held in the balance sheet at actual costs incurred and are amortized to service revenue accounts (from the year following acquisition) over their economic lives.

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**Non-Operational** - These are assets owned by the Council but not used in the direct delivery of services and are occupied by third parties to provide services on the Council's behalf. They are valued at Open Market Value. For investment properties the asset value is determined by capitalising the rents passing under existing leases at a market rate of interest which reflects the security of the income flow and the potential for increasing it.

**Infrastructure and Community Assets** - These are included in the balance sheet at historical cost net of depreciation. As recommended by CIPFA the Council's policy is that assets with a value of less than £10,000 do not attract depreciation charges.

**Assets under Construction** - Assets are held at the value of capital expenditure to date, until such time as the asset is deemed to require certification by the Valuer.

**Surplus Assets, held for Disposal** - These are assets that have been marketed for sale, and agreement to buy has been reached.

**Heritage Assets** - These are tangible assets with historical or artistic qualities that are held and maintained principally for their contribution to knowledge and culture e.g. works of art, museum exhibits and artefacts. In accordance with the SORP there is currently no specific requirement to disclose Heritage Assets, therefore the council opts not to disclose due to the difficulty of ascribing meaningful valuations.

Assets included in the balance sheet at current values are revalued where there have been material changes in the value, 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 Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

## Revaluation Reserve

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 Capital Adjustment Account.

Upon the disposal of fixed assets, any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 Capital Adjustment Account.

## Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reduction in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – loss is charged to the relevant service revenue account within the Income and Expenditure Account unless it relates to Non-Operational Assets (Investment Properties) which is shown below Net Cost of Services as per CIPFA Guidance.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account within the Income and Expenditure Account where it relates to Operational



# ACCOUNTING POLICIES

Assets. Non-Operational Assets (Investment Properties) shown below Net Cost of Services as per CIPFA Guidance.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

## Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Where an asset has major components with different estimated useful lives, these are depreciated separately. Depreciation is calculated on the following bases:

**Council Dwellings** - The Housing Revenue Account (HRA) has been charged with an amount of depreciation equivalent to the Major Repairs Allowance received from central government. This amount has been calculated as that required to maintain the housing stock in its current condition and central government allows this to be used as proxy for depreciation.

**Other Buildings** - straight-line basis over the remaining years of the property as estimated by the Valuer.

**Vehicles, Plant & Equipment, and Intangible assets** - depreciation is applied on a straight-line basis over the useful life of the asset.

**Infrastructure** – assets are depreciated over 40 years on a straight -line basis.

**Community Assets** – assets are only depreciated where there is a determinable useful life. They are generally valued at historic cost and the useful life of most of these assets exceeds 50 years and any depreciation charged would be immaterial to the accounts.

## Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account 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).

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve, and can only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movements on the General Fund Balance.

The summarised movements of capital receipts are shown in **note 31(c)**.

## 11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses due to a clear consumption of economic benefits.



## ACCOUNTING POLICIES

- Impairment losses which are not due to a clear consumption of economic benefits, but where there is insufficient revaluation gain held for the specific asset in the Revaluation Reserve.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement of the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

### 12. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute (previously referred to as deferred charges) represents capital expenditure that does not result in an asset, such as improvement grants. Expenditure of this nature, where the authority does not gain any economic benefit, is written off to the Revenue Account in the year it occurs, but does not affect the charge to Council Tax as an offsetting appropriation is made through the Statement of Movement on the General Fund Balance and the Capital Adjustment Account.

### 13. Leases

#### a) Operating Leases

Leases that do not meet the definition of a finance lease are accounted for as operating leases. Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease. In addition operating lease rentals payable are accounted for net of benefits received or receivable.

#### b) Finance Leases

Finance leases are leases where substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property, recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset and the liability being written down as the rent becomes payable, and
- A finance charge (debited to Net Operating Expenditure in the Income & Expenditure Account as rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council has no finance leases in primary rental. All amounts paid are treated as interest, since the principal value of the asset is deemed to have been fully repaid during the primary period.

### 14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying

## ACCOUNTING POLICIES

amount of the liability, multiplied by the effective rate of interest for the instrument. 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 Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of amortising to revenue the premium over the lifetime of either the repaid loan or any replacement loan, whichever is greater. Discounts must be amortised over the lesser of the remaining lifetime of the repaid loan or 10 years.

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

The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

### Redemption of debt

In accordance with the requirements of the Local Government Act 2003, the authority is required to set aside a minimum revenue provision (MRP) for repayment of debt. This is based on the Capital Financing Requirement (as defined by the Act) at the end of the preceding financial year, which replaced the detailed formula for calculating MRP, with a requirement to be prudent. For capital expenditure incurred before 1<sup>st</sup> April 2008 the Council's policy is to adopt existing practice (4% of capital financing requirement). The exception to this is short life assets (e.g. vehicles) where MRP has been calculated based on asset lives.

### Interest Charges

- Interest on loans is charged to the Income and Expenditure account based on the amount due and payable in the financial year.

## 15. Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

# ACCOUNTING POLICIES

## Soft Loans

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

Southampton City Council grants the following types of soft loans:

- **Car and Cycle Loans** the majority of which are issued at the prevailing base rate, the balance of these loans amounted to £151k at the 31 March 2010 (£97k – 31 March 2009)
- **Season Ticket Loans** amounting to £20k at the 31 March 2010 (£21k – 31 March 2009)
- **Welfare Loans** amounting to £3k (£11k – 31 March 2009)

The Council also provide **Private Sector Home Improvement Loans**. These are granted for private sector home owners to make improvements to their properties. This is treated as capital expenditure and written off to revenue as Revenue Expenditure funded from Capital under Statute (Formerly deferred charges). The loans are interest free and only become repayable when the property is sold. As these loans are treated as capital expenditure, no debtor is held in the Balance Sheet and as the period of the loan is unknown, they have not been accounted for under the Soft Loan provisions. At 31 March 2010 the value of Private Sector Home Improvement loans outstanding amounted to £1.6M (£1.3M – 31 March 2009).

## Available for Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

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

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

# ACCOUNTING POLICIES

## 16. Stocks and Work in Progress

Where possible stock and work in progress are valued in the Balance Sheet at the lower of cost, or net realisable value. There are two notable exceptions to this rule in the accounts:

- For 2009/10 the Council's Central Stores stock has been valued on an "Average Cost" basis.
- Housing Repairs "Schedule of Rates" work is valued at cost plus overheads and profit.

Where there is internal work in progress it has been eliminated when the accounts are consolidated.

## 17. Interests in Companies and Other Entities

### Group Accounts and Financial Relationships with Companies

According to the SORP's classification of group accounts relationships with companies, the Council has no such relationships.

In 2008/09 there were two simple investments, one with Solent Sustainable Energy Ltd (SSEL) which has since been wound up and one with Southampton Enterprise Centre Ltd (SECL) where the Council no longer takes a share of any profits and no longer has a director on the board.

The Council will continue to monitor the requirement of group accounts in the light of its relationship with all third party organisations.

## 18. Private Finance Initiatives (PFI)/ IFRIC 12 Service Concessions

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets 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 similar arrangements that pre-date PFI) and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed 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 Income and Expenditure Account;
- Finance cost – an interest charge of x% on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges within the Income and Expenditure Account;
- Contingent rent – increases in the amount to be paid for the property, arising during the contract, debited to Interest Payable and Similar Charges within the Income and Expenditure Account;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator;
- Lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

# ACCOUNTING POLICIES

The Council is currently involved with four such contracts, two of which require to be accounted for on Balance Sheet in accordance with the above policy – PFI schools, Hampshire Waste Management Contract, and two which are not – Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited.

Details of undischarged obligations as at 31st March 2010 are detailed in **note 3**.

## **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<sup>th</sup> October 2001 and will terminate on 31<sup>st</sup> August 2031. The estimated capital value of these schemes is £37 million.

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

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

### ***Hampshire Waste Contract***

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

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

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

Broadly the services contract involved the building and running of three Energy Recovery Facilities (ERFs) and two Material Recycling Facilities (MRFs), 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 it's share of the Assets (11.48%) on the basis of their share of the Annual Unitary Charge.

## **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 manage 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

## ACCOUNTING POLICIES

(Northlands – July 2005 – July 2030, & Oak Lodge Feb. 2010 – Feb 2035) to purchase beds (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually. Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

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

### 19. Strategic Services Partnership with Capita

On 1 October 2007, the Council signed a 10 year strategic services partnership contract with Capita. The contract, which involved the TUPE transfer of approximately 650 employees to Capita, delivers a wide range of services including Customer Services, IT, Property and the administration of HR, Payroll, Revenue & Benefits and Procurement.

As part of the contract the majority of the Council's IT assets transferred in ownership to Capita. The contract charges from Capita take account of the fact that we have donated the assets to the contract, i.e. the contract charges would have been higher if we had not donated the assets or if we had charged an amount for them.

The contract did not state what this reduction in charges was. Neither was it possible to estimate the open market value of the assets. Therefore, as the IT assets held on the Balance Sheet had been originally recognised at cost and were being depreciated over short lives relevant to the nature of the assets, the Net Book Value (NBV) (£3.2M) was deemed to be a reasonable approximation to the fair value. The transferred assets have been written out of the Balance Sheet.

A balance for Deferred Consideration (within Long Term Debtors) has been established with the NBV of the assets. The deferred consideration is then written down to zero over the 10 year life of the contract with the debit entry being to the Income and Expenditure Account. This is then reversed out through the Statement of Movement on General Fund Balance.

As the authority has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the 10 year contract by a reduction in the contract payments, the notional interest related to the value of the assets has been posted to the Income and Expenditure Account. This has also been reversed out through the Statement of Movement on General Fund Balance.

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

### 20. Trust Funds

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

### 21. Exceptional Items, Extraordinary Items & Prior Year Adjustments

Any material exceptional or extraordinary items are included within the cost of the relevant individual service or separately identified on the face of the revenue account. Details of any such items are given in the explanatory notes.

Material prior year adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figure in the financial statements and notes, along with the cumulative effect on reserves.

Any effect of material prior period adjustments is disclosed separately as a note to the accounts. Where this is not practicable, the fact that this is so, and the reasons for it have been disclosed.

# ACCOUNTING POLICIES

## 22. Post Balance Sheet Events

Any material post balance sheet events which provide additional evidence relating to conditions existing at the balance sheet date, or indicates that application of the going concern concept is not appropriate have been included in the accounts. Any material post balance sheet events, which concern conditions that did not exist at the balance sheet date, have been disclosed as a separate note to the accounts.

Events after the balance sheet date are included in the accounts up to the date when the Statement of Accounts is authorised for issue. For Southampton City Council this date has been determined as the 30<sup>th</sup> June 2010

## 23. Regeneration Budgets

Southampton City Council is the Accountable body for the regeneration programmes for the Government Office for the South East (GOSE).

The Council is responsible for the successful delivery of New Deal for Communities programme that has been awarded to the City. A Partnership Board of local residents and agencies manages the programme.

The grant is helping to significantly improve the quality-of-life for the residents in the target area of Thornhill.

Community Regeneration's main aims are to build capacity and to deliver benefits to local communities through lifelong learning, access to employment, better community safety, better health and housing improvements.



# RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## 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 Executive Director of Resources.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve Statement of Accounts.

## 2. The Chief Financial Officer's Responsibilities

The Council's Chief Financial Officer (CFO) is the Executive Director of Resources. The CFO is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in Great Britain", is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2010.

In preparing this Statement of Accounts the Chief Financial Officer is responsible for:

- Selecting suitable accounting policies and then applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Complying with the Code of Practice (any significant non-compliance being fully disclosed).

The CFO has also responsibilities for:

- Keeping proper accounting records, which are up to date.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

## 3. Certification of the Accounts

I certify that the Statement of Accounts presents the true and fair position of Southampton City Council at 31st March 2010 and its income and expenditure for the year ended 31st March 2010.

Signed **C Williamson**  
Executive Director of Resources and  
Chief Financial Officer

Date 25th June 2010

## 4. Approval of the Accounts

I certify that the Statement of accounts has been approved by a resolution of the Standards and Governance Committee in accordance with the Accounts and Audit Regulations 2003 and is authorised for issue.

Signed **B Hooper**  
Chair, Standards and Governance Committee.

Date 25th June 2010



## INCOME AND EXPENDITURE ACCOUNT

This Account summarises the resources that have been applied and generated in providing services and managing the Council during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.

<u>2008/09</u>			<u>2009/10</u>	
<u>Net</u> <u>Expenditure</u> £000's	<u>Notes</u>	<u>Gross</u> <u>Expenditure</u> £000's	<u>Income</u> £000's	<u>Net</u> <u>Expenditure</u> £000's
5,189	Central Services to the Public	26,779	(20,599)	6,180
45,996	Cultural, Environmental Regulatory and Planning Services	84,831	(35,638)	49,193
60,519	Children's and Education Services	231,926	(173,093)	58,833
15,775	Highways and Transport Services	28,529	(15,016)	13,513
133,694	Local Authority Housing (HRA)	54,653	(64,094)	(9,441)
4,503	Other Housing Services	114,071	(108,877)	5,194
59,680	Adult Social Care	87,435	(28,606)	58,829
4,742	Corporate and Democratic Core	5,278	(409)	4,869
3,474	Non Distributable Costs	3,799	(36)	3,763
-	Exceptional Items			
	VAT Refund - Fleming Cases		(2,733)	(2,733)
<b>333,572</b>	<b>Net Cost of Services</b>	<b>637,301</b>	<b>(449,101)</b>	<b>188,200</b>
24,849	Investment Properties (Impairment net of Income)			(15,535)
(1,401)	Loss / (Gain) on the disposal of Fixed Assets			(836)
516	Contributions to Other Local Authorities			593
10,993	Interest payable and similar charges			6596
(987)	Surplus Provision not Relating to Specific Services			
1,585	Contributions of Housing Capital Receipts to Government Pool			1704
	Investment Losses			
(5,239)	Interest and Investment Income			(1,575)
11,870	Pensions Interest Costs & Expected Return on Assets			22,520
<b>375,758</b>	<b>Net Operating Expenditure</b>	<b>637,301</b>	<b>(449,101)</b>	<b>201,667</b>
(78,310)	Demand on Collection Fund			(80,850)
(22,451)	General Government Grants			(29,974)
(740)	Capital Grants not Relating to Specific Services			(1,507)
(84,572)	Non - Domestic Rates Redistribution			(79,846)
<b>189,685</b>	<b>Deficit / (Surplus) for the Year</b>			<b>9,490</b>

The 08/09 Income and Expenditure Account, SMGFB, and the STRGL have been restated to incorporate the changes in Accounting Policies in respect of PFI type arrangements and the Collection Fund (See Note 2 to the Core Financial Statements)

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the useable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- Depreciation, impairment losses and amortisations are replaced by revenue provision (equal to either an amount calculated on a prudent basis determined in accordance with statutory guidance, or loans fund principal charges) in the Statement of Movement of the General Fund Balance.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09 £000's		2009/10 £000's
192,504	Deficit / (Surplus) for the Year on the Income and Expenditure Account	9,490
(2,819)	Previous Year Adjustment (change in Accounting Policy)	-
<u>189,685</u>		<u>9,490</u>
(195,431)	Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	(14,095)
2,819	Previous Year Adjustment (change in Accounting Policy)	-
<u>(192,612)</u>	Restated Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year	<u>(14,095)</u>
<u>(2,927)</u>	Decrease/(Increase) in General Fund Balance for the Year	<u>(4,605)</u>
(12,256)	General Fund Balance Brought Forward	(15,183)
<u><b>(15,183)</b></u>	General Fund Balance Carried Forward	<u><b>(19,788)</b></u>
0	Amount of General Fund Balance held by Schools under Local Management schemes	-
(15,183)	Amount of General Fund Balance generally available for new expenditure	(19,788)
<u><b>(15,183)</b></u>	<b>Total</b>	<u><b>(19,788)</b></u>

# STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The statement below sets out the details of the reconciling transactions (Net additional amount required by Statute and Non-Statutory proper practices to be debited or credited to the General Fund for the Year) and shows the movement to and from other earmarked reserves.

2008/09 £000's		Notes	2009/10 £000's
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund for the Year</b>		
(204)	Amortisation of intangible fixed assets	20	(243)
(202,442)	Depreciation and Impairment of fixed assets	12	(19,473)
(1,106)	PYA - PFI Assets Depreciation		-
(826)	PYA - Hampshire Waste Contract Depreciation		-
1,045	Revenue contribution to Deferred Assets		-
(1,045)	PYA - PFI Deferred Asset - No longer Required		-
(33)	Deferred Consideration written down		-
33	PYA - PFI Deferred Consideration no longer required		-
(270)	Assets Transferred to CAPITA	43	(283)
3,621	Government Grants Deferred amortisation	50	1,727
(11,093)	Revenue Expenditure Funded from Capital Under Statute	12	(7,823)
3,156	PYA - IFRIC 12 Hampshire Waste		-
-	Capital Receipts not matched by Disposal of Assets		-
8,765	Capital Grants & Contributions not transferred to Government Grants Deferred		9,479
1,401	Net (loss) / gain on sale of fixed assets		836
327	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on early repayment of debt	31 (d)	303
(26,930)	Net charges made for retirement benefits in accordance with FRS 17	38 (a)	(38,670)
	Collection Fund Adjustment Account		(70)
1,487	Previous Year Adjustment (change in Accounting Policy Collection Fund)		-
<b>(224,115)</b>			<b>(54,217)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund for the Year</b>		
(293)	Transfers to/(from) Major Repairs Reserve		(68)
5,009	Minimum revenue provision for capital financing	16	7,050
885	PYA - PFI Schools	16	-
3,393	'PYA - IFRIC 12 - Hampshire Waste Contract		-
12,778	Capital expenditure charged in-year to the General Fund Balance	12	14,242
(3,156)	PYA - IFRIC 12 Hampshire Waste Contract (Refcus)		-
(1,585)	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	31 (c)	(1,704)
22,020	Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	38 (a)	22,500
<b>39,051</b>			<b>42,020</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
(720)	Housing Revenue Account balance		(799)
188	Voluntary revenue provision for capital financing	16	288
(7,015)	Net transfer to/(from) earmarked reserves	31 (e)	(1,387)
<b>(7,547)</b>			<b>(1,898)</b>
<b>(192,611)</b>	<b>Transfers to or from the General Fund Balance for the Year</b>		<b>(14,095)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and remeasurement of the net liability to cover the cost of retirement benefits.

<b>2008/09</b>		<b>2009/10</b>
<b>£000's</b>		<b>£000's</b>
192,504	Deficit / (Surplus) for the Year on the Income and Expenditure Account	9,490
<u>(2,819)</u>	Prior Year Adjustment (change in Accounting Policy)	-
189,685		<u>9,490</u>
4,926	(Surplus)/deficit arising on revaluation on fixed assets	(33,312)
(18,381)	PYA - PFI Scheme Revaluation	
(1,486)	Attributable Movement on Collection Fund Balance	-
1,486	PYA - Collection Fund	-
(314)	(Surplus)/deficit arising on revaluation of available-for-sale financial assets	(12)
128,240	Actuarial (gains) / losses on pension fund assets and liabilities	94,850
(900)	Transfer of Capital Grants & contributions to Earmarked Reserves	-
6,017	Previous Year Adjustment (change in Accounting Policy)	(225)
<u><b>309,273</b></u>	<b>Total recognised (gains) / losses for the year</b>	<u><b>70,791</b></u>

The STRGL comparatives have been restated to incorporate the Changes in Accounting Policies in respect of the Collection Fund and PFI/ IFRIC 12 Service Concessions (including Revaluations).

# BALANCE SHEET

This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31 March 2010.

31st March 2009		Notes	31st March 2010		
£000's			£000's	£000's	£000's
712	<b>Fixed Assets</b>			609	
	<i>Intangible Assets</i>	20			
	<i>Tangible Fixed Assets</i>				
	<i>Operational Assets</i>				
663,310	Council Dwellings	12	697,606		
658,160	Other Land and Buildings	12	669,044		
5,631	Vehicles, plant, furniture, and equipment	12	8,152		
96,951	Infrastructure assets	12	108,868		
				1,483,670	
	<i>Non-Operational Assets</i>				
123,957	Investment Properties	12	133,567		
9,734	Assets under construction	12	4,818		
288	Surplus assets, held for disposal	12	8,111		
				146,496	
<b>1,558,743</b>	<b>Total Fixed Assets</b>				1,630,775
9,351	Long Term Investments	25			6,414
2,907	Long Term Debtors	42			2,643
<b>1,571,001</b>	<b>Total Long - Term Assets</b>				<b>1,639,832</b>
	<b>Current Assets</b>				
1,239	Stocks, Stores and Work in Progress	44		1,340	
46,902	Debtors	45		55,222	
(13,711)	Less provision for bad and doubtful debts			(12,807)	
21,900	Short Term Investments	46		40,662	
174	Cash in Hand and Bank	47		176	
					<b>84,593</b>
<b>1,627,506</b>	<b>Total Assets</b>				<b>1,724,425</b>
	<b>Current Liabilities</b>				
(49,853)	Short Term Borrowing	24		(51,078)	
(61,231)	Creditors	45		(71,440)	
(2,470)	Bank Overdraft	47		(5,689)	
					<b>(128,207)</b>
<b>1,513,951</b>	<b>Total Assets less Current Liabilities</b>				<b>1,596,218</b>
	<b>Long Term Liabilities</b>				
(79,279)	Long Term Borrowing	24			(104,920)
(49,717)	Finance Creditor	3			(48,218)
(8,252)	Provisions	30			(9,081)
(43,535)	Government Grants & Contributions Deferred	50			(55,428)
(19,987)	Deferred Liabilities	48			(19,188)
(92)	Deferred Capital Balances	49			(58)
(21,006)	Capital Grants & Contributions Unapplied	51			(27,013)
(297,970)	Liability Related to Defined Benefit Pensions Scheme	38(b)			(408,990)
<b>994,113</b>	<b>Total Assets less Liabilities</b>	21			<b>923,322</b>
	<b>Financed by:</b>				
54,043	Revaluation Reserve	31			86,346
1,188,185	Capital Adjustment Account	31			1,198,396
334	Available-for-Sale Financial Instruments Reserve	31			346
327	Financial Instrument Adjustment Account	31			621
(297,970)	Pension Reserve	38(b)			(408,990)
6,015	Usable Capital Receipts Reserves	31			1,074
23,660	Earmarked Revenue Reserves	31			22,273
	<i>Revenue Balances</i>				
15,183	General Fund	31			19,788
2,387	Housing Revenue Account	31			1,589
1,949	Collection Fund Adjustment Account	31			1,879
<b>994,113</b>	<b>Total Net Worth</b>				<b>923,322</b>

Signed: Chair of Meeting

B Hooper

# CASH FLOW STATEMENT

This statement shows in summary form the inflow and outflow of cash during the year

<u>2008/09</u> £000's	£000's	<u>2009/10</u> £000's
<b>27,169</b>		<b>39,192</b>
(250) PYA Change in Accounting Policy (Collection Fund - Council Tax)		-
2,064 PYA Change in Accounting Policy (Collection Fund - NNDR)		-
4,550 PYA Change in Accounting Policy (PFI)		-
<u>(7,937)</u> PYA Revenue Expenditure Funded from Capital Under Statute		<u>-</u>
<b>25,596</b>		<b>39,192</b>
<b>Returns on Investments and Servicing of Finance</b>		
<u>Cash Outflows</u>		
(6,526) Interest Paid	(7,376)	
(3,429) PYA Change in Accounting Policy (PFI)	-	
<u>Cash Inflows</u>		
4,603 Interest Received	1,469	
<u>(5,352)</u>		<u>(5,907)</u>
<b>Capital Activities</b>		
<u>Cash Outflows</u>		
(66,456) Expenditure on Fixed Assets	(74,562)	
(5,045) Purchase of Long term Investments	-	
- Other Capital Cash Payments	-	
<u>(71,501)</u>	<u>(74,562)</u>	
<u>Cash Inflows</u>		
4,720 Sale of Fixed Assets	3,558	
18,413 Capital Grants Received	21,699	
4,494 Other Capital Cash Receipts	7,408	
<u>27,627</u>	<u>32,665</u>	
<u>(43,874)</u>		<u>(41,897)</u>
<b>(23,630)</b>		<b>(8,612)</b>
<b>Management of Liquid Resources - Note 39(b) and 39(c)</b>		
50,114 Net Increase/(Decrease) in Liquid Resources	(16,190)	
- Net Increase/(Decrease) in Liquid Resources (Council Tax NNDR)	(3,949)	
250 PYA - Council Tax attributable to precepting authorities	-	
<u>(2,064)</u> PYA - NNDR Net Increase	<u>-</u>	
<b>48,300</b>		<b>(20,139)</b>
<b>Financing</b>		
<u>Cash Outflows</u>		
(295,934) Repayments of Amounts Borrowed	(261,842)	
(4,277) Capital element of PFI Schemes/ Finance Leases	(1,423)	
		<u>(263,265)</u>
<u>Cash Inflows</u>		
61,585 New Long Term Loans Raised	45,000	
219,120 New Short Term Loans	243,800	
<u>(19,506)</u>		<u>288,800</u>
<b>5,164</b>		<b>(3,217)</b>
<b>Net Increase/(Decrease) in Cash - Note 39(d)</b>		

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Acquired & Discontinued Operations

The Code of Practice requires the City Council to disclose any material operations, which have been acquired or discontinued.

## 2. Exceptional/Extraordinary Items and Prior Period Adjustments

### Exceptional Items

#### VAT Fleming Cases Refunds

The Council, following the House of Lords judgement in respect of Michael Fleming (which prevented HM Revenue & Customs enforcing regulations which would illegally limit Vat Reclaims to the three previous years) submitted a number of "Fleming" claims.

During 2009/10 the Council received notifications of settlements from HM Revenue & Customs in respect of a number of these claims totalling £2.7m. As these claims relate to periods prior to 1 April 2009 they have been disclosed as an Exceptional Item within Net Cost of Services.

### Prior Period Adjustments

#### Changes in Accounting Policies

#### Collection Fund

The Balance Sheet Collection Fund Debtors and Creditors, at the 31 March 2009, in respect of Council Tax, NNDR, and Government Departments, have been adjusted from those included in the Statement of Accounts for 2008/09 to accommodate the change in Accounting Policy required to account for Council Tax and NNDR Income on an Agency basis.

<b>Debtors (Current Assets)</b>	£000's
Balance per 08/09 Accounts	49,529
Collection Fund - Council Tax Debtors	(1,020)
Collection Fund - NNDR Debtors	(2,449)
Government Department Debtors	843
<b>Restated 08/09 Balance</b>	<b><u>46,903</u></b>
Provision for Bad Debts - Balance per 08/09 Accounts	(15,540)
Council Tax	862
NNDR	967
<b>Restated 08/09 Balance</b>	<b><u>(13,711)</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Creditors (Current liabilities)</b>	£000's
Balance per 08/09 Accounts	(60,605)
Schools PFI - Finance Creditor	(963)
Hampshire Waste - Finance Creditor	(461)
Collection Fund - Council Tax Prepayments	83
- Collection Fund Surplus	326
- HPA Creditor	(177)
- HFRA Creditor	(75)
- NNDR Prepayments	640
<b>Restated 08/09 Balance</b>	<u><u>(61,232)</u></u>

The Income & Expenditure Account has also been restated as Council Tax income, from the 1 April 2009, is accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund has been taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance (See Below).

### Private Finance Initiatives (PFI)/ IFRIC 12 Service Concessions

The 2009 SORP, in preparation for International Financial Reporting Standards (IFRS), requires Service Concession arrangements to be accounted for in accordance with IFRIC12 (International Financial Reporting Interpretations Committee).

The Council, as noted within Accounting Policy 18??, is currently involved with three such contracts, two of which require to be accounted for on Balance Sheet in accordance with the above policy – PFI schools, Hampshire Waste Management Contract, and one which is not - Northlands Nursing Home.

The Balance Sheet has been adjusted to include Assets and Liabilities associated with the PFI type arrangements as if the schemes had always been accounted for on Balance Sheet.

<b>Fixed Assets</b>	£000's	£000's	£000's
<b>Other Land and Buildings</b>	<b>Cost</b>	<b>Depn</b>	
Balance per 08/09 Accounts			588,407
Schools PFI	42,968	(3,437)	
Revaluation	14,751	3,437	
Depreciation 08/09		(1,106)	
Hampshire Waste Contract - IFRIC 12	18,001	(3,056)	
Revaluation	(4,035)	3,056	
Depreciation 08/09		(826)	
	<u>71,685</u>	<u>(1,932)</u>	<u>69,753</u>
<b>Restated 08/09 Balance</b>			<u><u>658,160</u></u>

<b>Long Term Debtors</b>	£000's
Balance per 08/09 Accounts	7,822
PFI Schools Balance - No longer Required	<u>(4,915)</u>
<b>Restated 08/09 Balance</b>	<u><u>2,907</u></u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Long Term Liabilities</b>	£000's
Finance Creditor - Balance per 08/09	n/a
Schools PFI	(37,358)
Hampshire Waste Contract	<u>(12,359)</u>
<b>Restated 08/09 Balance</b>	<b><u><u>(49,717)</u></u></b>

<b>Financed By</b>	£000's
<b>Revaluation Reserve</b>	
Balance per 08/09 Accounts	35,662
Schools PFI	18,188
Hampshire Waste Contract	<u>193</u>
<b>Restated Balance</b>	<b><u><u>54,043</u></u></b>
<b>Capital Adjustment Account</b>	
Balance per 08/09 Accounts	1,192,869
Schools PFI	(4,812)
Hampshire Waste Contract	<u>127</u>
<b>Restated Balance</b>	<b><u><u>1,188,184</u></u></b>

The Income & Expenditure Account comparatives have also been restated, along with the Council Tax adjustments, to reflect the changes in accounting treatment – summary of the changes.

<b>Income and Expenditure Account</b>	£000's	£000's
Deficit/ (Surplus) for the Year as per 08/09 Accounts		192,504
PYA Changes in Accounting Policies:		
Collection Fund	(1,487)	
PFI Schemes - Depreciation	1,933	
- Deferred Asset - No longer required	1,045	
- Deferred Consideration write off - No longer required	(33)	
- MRP	<u>(4,277)</u>	
		<u>(2,819)</u>
<b>Restated I&amp;E Deficit</b>		<b><u><u>189,685</u></u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Effect of the above changes on the Income and Expenditure comparatives are as follows:

	<u>08/09</u> <u>Net</u> <u>Expenditure</u> <u>£000's</u>	<u>Adjustments</u>		<u>08/09</u> <u>Restated Net</u> <u>Expenditure</u>
		<u>PFI</u> <u>Schemes</u> <u>£000's</u>	<u>Collection</u> <u>Fund</u> <u>£000's</u>	
Central Services to the Public	5,189			5,189
Cultural, Environmental Regulatory and Planning Services	49,811	(3,815)		45,996
Children's and Education Services	61,465	(946)		60,519
Highways and Transport Services	15,775			15,775
Local Authority Housing (HRA)	133,694			133,694
Other Housing Services	4,503			4,503
Adult Social Care	59,680			59,680
Corporate and Democratic Core	4,742			4,742
Non Distributable Costs	3,474			3,474
<b>Net Cost of Services</b>	<b>338,333</b>	<b>(4,761)</b>	<b>-</b>	<b>333,572</b>
Investment Properties (Impairment net of Income)	24,849			24,849
Loss / (Gain) on the disposal of Fixed Assets	(1,401)			(1,401)
Contributions to Other Local Authorities	516			516
Interest payable and similar charges	7,564	3,429		10,993
Surplus Provision not Relating to Specific Services	(987)			(987)
Contributions of Housing Capital	1,585			1,585
Receipts to Government Pool				
Investment Losses				0
Interest and Investment Income	(5,239)			(5,239)
Pensions Interest Costs & Expected Return on Assets	11,870			11,870
Previous Year Adjustment (change in Accounting Policy)	0			0
<b>Net Operating Expenditure</b>	<b>377,090</b>	<b>(1,332)</b>	<b>-</b>	<b>375,758</b>
Demand on Collection Fund	(76,823)		(1,487)	(78,310)
General Government Grants	(22,451)			(22,451)
Capital Grants not Relating to Specific Services	(740)			(740)
Non - Domestic Rates Redistribution	(84,572)			(84,572)
Fund				0
<b>Deficit / (Surplus) for the Year</b>	<b>192,504</b>	<b>(1,332)</b>	<b>(1,487)</b>	<b>189,685</b>

The Statement of Movement on the General Fund Balance, Cash Flow Statement, and the Statement of Total Recognised Gains and Losses has also been restated to incorporate the above changes in Accounting Policies – See separate Statements.

### Government Grants and Contributions Unapplied/ Earmarked Reserves

A review of the Government Grants and Contributions Unapplied balance highlighted that £900k of Earmarked Contributions from Southampton City Training Reserve were incorrectly included within Government Grants and Contributions Unapplied. The Prior year Balances have been restated to correct this misclassification as has the Statement of Recognised Gains and Losses (STRGL).

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 3. PFI and IFRIC 12 Service Concessions

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

	PFI - Schools £'000	Hampshire Waste Contract £'000	Total £'000
<b>Cost or Valuation</b>			
At 1 April 2009	57,719	13,966	71,685
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Impairments	-	-	-
<b>At 31 March 2010</b>	<b>57,719</b>	<b>13,966</b>	<b>71,685</b>
<b>Depreciation &amp; Impairment</b>			
At 1 April 2009	(1,106)	(826)	(1,933)
Depreciation Charge for the Year	(1,106)	(826)	(1,933)
Disposals	-	-	-
Revaluations	-	-	-
Impairments	-	-	-
<b>At 31 March 2010</b>	<b>(2,213)</b>	<b>(1,652)</b>	<b>(3,865)</b>
<b>Balance Sheet amount at 31 March 2010</b>	<b>55,506</b>	<b>12,314</b>	<b>67,820</b>
<b>Balance Sheet amount at 1 April 2009</b>	<b>56,613</b>	<b>13,140</b>	<b>69,753</b>

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

	PFI - Schools £'000	Hampshire Waste Contract £'000	Total £'000
Balance b/f	38,321	12,820	51,141
Repayments	(963)	(461)	(1,423)
<b>Balance 31 March 2010</b>	<b>37,358</b>	<b>12,359</b>	<b>49,717</b>
<b>Due within 1 Year</b>			
Balance b/f	963	461	1,423
Repayments	(963)	(461)	(1,423)
Due within 1 Year	1,001	498	1,499
<b>Balance 31 March 2010</b>	<b>1,001</b>	<b>498</b>	<b>1,499</b>
<b>Long Term Creditor Balance 31 March 2010</b>	<b>36,357</b>	<b>12,857</b>	<b>48,219</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	PFI - Schools			Hampshire Waste			Total £'000
	Liability	Interest	Service Charges	Liability	Interest	Service Charges	
	£'000	£'000	£'000	£'000	£'000	£'000	
within one year	1,001	2,076	2,795	498	989	4,853	12,212
within two to five years	4,258	7,741	12,189	2,422	3,524	21,960	52,093
within six to ten years	6,852	8,190	16,552	4,290	3,142	30,452	69,478
within eleven to fifteen years	9,103	6,060	18,087	5,101	1,163	34,951	74,464
within sixteen to twenty years	12,032	3,231	19,815	47	0	2,121	37,247
within twenty one to twenty five years	4,112	297	5,878	-	-	-	10,287
<b>Balance 31 March 2010</b>	<b>37,358</b>	<b>27,595</b>	<b>75,315</b>	<b>12,359</b>	<b>8,817</b>	<b>94,336</b>	<b>255,781</b>

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

	BUPA Care Homes		Total £'000
	Northlands	Oak Lodge	
	£'000	£'000	
within one year	2,278	1,264	3,542
within two to five years	9,112	5,334	14,445
within six to ten years	11,390	6,667	18,057
within eleven to fifteen years	11,390	6,667	18,057
within sixteen to twenty years	11,390	6,667	18,057
within twenty one to twenty five years	759	6,467	7,226
<b>Balance 31 March 2010</b>	<b>46,318</b>	<b>33,065</b>	<b>79,383</b>

Payments made in 2009/10 in respect of PFI and IFRIC 12 Service Concessions were as follows:

	Liability	Interest	Service Charges	Total
	£'000	£'000	£'000	£'000
PFI Schools	963	2,130	3,376	6,468
Hampshire Waste	461	1,026	5,150	6,637
BUPA Care Homes				
Northlands	2,278	-	-	2,278
Oak Lodge	-	-	-	-
<b>Totals</b>	<b>3,701</b>	<b>3,155</b>	<b>8,526</b>	<b>15,383</b>

These private finance contracts are discussed in more detail in *Accounting Policies (18)*.

### 4. Trading Activities

Trading services are disclosed in line with the requirements of the Best Value Accounting Code of Practice (BVACoP) and are mainly activities of a commercial nature that are financed substantially by charges made to recipients of the service.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Other trading activities include Trade Refuse that generated profits of £36k for 2009/10, (2008/09, £85k).

### 5. Agency Arrangements

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 Council currently has only one material arrangement in place; to provide a rehabilitation service for Southampton City Primary Trust.

### 6. Transport Act 2000

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

### 7. Pooled Budgets

Section 31 of the Health Act 1999 allows partnership arrangements between National Health Service Bodies, local authorities and other agencies in order to improve and co-ordinate services. Each partnership makes a contribution to a pooled budget, with the aim of focussing services and activities for a client group. Funds contributed are those normally used for the services represented in the pooled budget and allow the organisation involved to act in a more cohesive way. With effect from 1 April 2004 the Council is required to maintain memorandum accounts in respect of three pooled fund accounts as detailed below:

#### ***Southampton Joint Equipment***

Partnership between Southampton City Council and Southampton City Primary Care Trust to provide community equipment to both children and adults in their own homes and residential care plus provision to nursing homes through the purchase of Health Standard and Social Care Standard equipment.

2008/09 £000's	Southampton Joint Equipment Store (Previously Community Equipment)	2009/10 £000's
	<b>Funding</b>	
(57)	Brought Forward	(30)
(466)	Southampton City Council	(497)
(305)	Southampton City Primary Care Trust	(416)
<b>(828)</b>		<b>(943)</b>
798	<b>Expenditure</b>	943
<b>(30)</b>	<b>Carried Forward</b>	<b>0</b>

#### ***Residual, Domiciliary Care & Continuing Care Services***

Partnership between Southampton City Council and Southampton City Primary Care Trust to commission residential, domiciliary care and continuing care services for former residents of a Locally Based Hospital Unit in Southampton.

# NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09 £000's	Locality Based Hospital Units	2009/10 £000's
	<b>Funding</b>	
(350)	Brought Forward	(1)
(4)	Southampton City Council	0
(2,836)	Southampton City Primary Care Trust	(3,503)
<b>(3,190)</b>		<b>(3,504)</b>
3,189	<b>Expenditure</b>	3,496
<b>(1)</b>	<b>Carried Forward</b>	<b>(8)</b>

## Substance Misuse

Partnership between Southampton City Council and Southampton City Primary Care Trust to provide an integrated Young People's Substance Misuse treatment and outreach service for young people under the age of 19 years who are resident in Southampton. This includes Tier 3 clinical treatment services and Tier 2 assertive outreach services to identify, screen and assess young people in need of services.

2008/09 £000's	Substance Misuse	2009/10 £000's
	<b>Funding</b>	
0	Brought Forward	0
0	Southampton City Council	(134)
	Southampton City Primary Care Trust	(145)
<b>0</b>		<b>(279)</b>
	<b>Expenditure</b>	
0	Balance to southampton City Council	279
<b>0</b>	<b>Carried Forward</b>	<b>0</b>

## Drug Services

Partnership between Southampton City Council and Southampton City Primary Care Trust with the aim of reducing the harm caused by drugs by increasing the effectiveness of the drug treatment services in Southampton so that targets can be reached and an increased number of people access treatment within nationally set waiting times.

2008/09 £000's	Drug Services	2009/10 £000's
	<b>Funding</b>	
(272)	Brought Forward	(42)
0	PYA to Creditor	(18)
(313)	Southampton City Council	(313)
(2,036)	Southampton City Primary Care Trust	(1,869)
<b>(2,621)</b>		<b>(2,242)</b>
2,579	<b>Expenditure</b>	2,221
<b>(42)</b>	<b>Carried Forward</b>	<b>(21)</b>

## 8. Members Allowances

The total of members allowances paid in 2009/10 was £812k, (£767k in 2008/09).

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 9. Officers Emoluments

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

<u>Band £</u>	<u>Number of Employees</u>					
	<u>2008/09</u>			<u>2009/10</u>		
	<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 - 54,999	41	45	86	43	39	82
55,000 - 59,999	24	28	52	35	32	67
60,000 - 64,999	8	7	15	9	5	14
65,000 - 69,999	8	9	17	7	4	11
70,000 - 74,999	5	9	14	7	10	17
75,000 - 79,999	4	10	14	2	13	15
80,000 - 84,999	1	4	5	3	5	8
85,000 - 89,999	2	3	5	2	4	6
90,000 - 94,999	0	1	1	1	2	3
95,000 - 99,999	0	1	1	0	1	1
100,000 - 104,999	0	1	1	0	2	2
105,000 - 109,999	1	0	1	0	0	0
110,000 - 114,999	1	0	1	1	0	1
115,000 - 119,999	0	3	3	0	2	2
120,000 - 124,999	0	2	2	0	1	1
125,000 - 129,999	0	0	0	1	0	1
130,000 - 134,999	0	0	0	0	1	1
155,000 - 159,999	0	0	0	0	1	1
165,000 - 169,999	0	1	1	0	0	0
170,000 - 174,999	0	0	0	0	1	1
	<b>95</b>	<b>124</b>	<b>219</b>	<b>111</b>	<b>123</b>	<b>234</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

2009/10

<b>Post Holder</b>	<b>Salary (including fees &amp; allowances)</b>	<b>Expense Allowances</b>	<b>Compensation for loss of office</b>	<b>Benefits in Kind</b>	<b>Total Remuneration excluding pension contributions 2009/10</b>	<b>Pensions contributions</b>	<b>Total Remuneration including pension contributions 2009/10</b>
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Chief Executive</b> - Brad Roynon	172,618	1,195	-	-	173,813	25,030	198,842
<b>Assistant Chief Executive (Strategy)</b> - Joy Wilmot-Palmer	91,698	1,292	-	-	92,990	13,052	106,042
<b>Assistant Chief Executive (Economic Development)</b> from 14/04/2009 - Dawn Baxendale	88,862	-	-	-	88,862	12,885	101,747
<b>Solicitor to the Council</b> - Mark Heath	103,895	122	-	-	104,017	15,065	119,082
<b>Executive Director of Environment</b> - Lorraine Brown	123,261	122	-	3,171	126,555	17,873	144,428
<b>Executive Director of Health &amp; Adult Social Care</b> retired 05/07/2009 - John Beer see Note 1	34,435	962	-	-	35,397	5,128	40,525
<b>Executive Director of Neighbourhoods</b> - Nick Murphy	119,664	1,647	-	-	121,311	17,379	138,690
<b>Executive Director of Children's Services &amp; Learning</b> - Clive Webster	119,857	362	-	-	120,219	17,379	137,599
<b>Executive Director of Resources</b> - Carolyn Williamson	130,714	985	-	-	131,699	18,954	150,653
<b>Communications Director</b> from 08/12/2009 - Ben White	25,729	-	-	-	25,729	3,731	29,459
<b>Head of Communications</b> left 31/08/2009 - see Note 2	28,151	151	75,000	-	103,302	4,082	107,384
	<b>1,038,883</b>	<b>6,840</b>	<b>75,000</b>	<b>3,171</b>	<b>1,123,894</b>	<b>150,556</b>	<b>1,274,451</b>

**Note 1**

Executive Director of Health & Adult Social Care post covered from July 2009 to March 2010 by an Interim Director employed via an agency.

**Note 2**

Head of Communications post deleted.

**Note 3**

There were no bonuses paid.

**Note 4**

The pension contribution is the amount determined at the last actuarial valuation as being needed to meet the cost of future pension provision for the individual (currently set at 14.5% of salary). It does not include any additional percentage required to offset the pension fund deficit.



# NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09

<b>Post Holder</b>	<b>Salary (including fees &amp; allowances)</b>	<b>Expense Allowances</b>	<b>Compensation for loss of office</b>	<b>Benefits in Kind</b>	<b>Total Remuneration excluding pension contributions 2008/09</b>	<b>Pensions contributions</b>	<b>Total Remuneration including pension contributions 2008/09</b>
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Chief Executive - Brad Roynon</b>	166,786	2,193	-	-	168,979	24,184	193,163
<b>Assistant Chief Executive (Strategy) - Joy Wilmot-Palmer</b>	89,495	1,217	-	-	90,712	12,744	103,456
<b>Solicitor to the Council - Mark Heath</b>	101,448	161	-	-	101,609	14,710	116,319
<b>Executive Director of Environment - Lorraine Brown</b>	119,857	122	-	3,149	123,129	17,379	140,508
<b>Executive Director of Health &amp; Adult Social Care - John Beer</b>	123,261	3,650	-	-	126,911	18,395	145,307
<b>Executive Director of Neighbourhoods - Nick Murphy</b>	117,240	1,302	-	-	118,542	16,972	135,514
<b>Executive Director of Children's Services &amp; Learning - Clive Webster</b>	117,047	806	-	-	117,853	16,972	134,824
<b>Executive Director of Resources - Carolyn Williamson</b>	123,261	1,067	-	-	124,328	17,873	142,201
<b>Head of Communications</b>	65,964	362	-	-	66,327	9,565	75,892
	<b>1,024,360</b>	<b>10,882</b>	<b>0</b>	<b>3,149</b>	<b>1,038,391</b>	<b>148,794</b>	<b>1,187,185</b>

**Note 1**

There were no bonuses paid.

**Note 2**

The pension contribution is the amount determined at the last actuarial valuation as being needed to meet the cost of future pension provision for the individual (currently set at 14.5% of salary). It does not include any additional percentage required to offset the pension fund deficit.

## 10. Related Party Transactions

The Accounting Code of Practice 1998 requires the Council to disclose material transactions with related parties. This has been introduced to bring local authorities in line with the private sector. For the City Council a "Related Party" is considered to be:

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

During the year major transactions with related parties arose with; Hampshire Superannuation Fund and Teachers Pensions Agency as disclosed in **note 37**; Hampshire Police Authority precept of £9,331k and Hampshire Fire & Rescue Services precept of £3,960k, shown in the **Collection Fund Accounts**, and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants; these are set out in the **Cash Flow Statement** and **note 39**.

For the elected members and chief 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 chief officers were requested to disclose any related party transactions; no material transactions were disclosed for 2009/10.

## 11. Disclosure of Audit Fees

The Council's appointed auditors are the Audit Commission. The Authority incurred the following fees relating to external audit and inspection. The fees for other services in 2008/09 related to specialist advice for work and on National Fraud initiatives.

<u>2008/09</u> £000's	<u>2009/10</u> £000's
323 Statutory Audit & Inspection	360
79 Certification of Grant Claims and Returns	118
28 Other Services	0
<u>430</u>	<u>478</u>

## 12. Fixed Assets

Fixed assets are shown at a current valuation of £1,631M, an increase of £0.072M. The basis of valuation is explained in more detail in **accounting policies (9 & 10)** This valuation does not include certain Church and Voluntary Aided schools. These schools have an estimated value of £32M. The values are shown as at 31 March 2010.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The movement in Fixed Assets in the year comes about due to changes to asset valuations, disposals of existing fixed assets, new acquisitions and enhancements to assets funded by capital expenditure. In previous years a large element of the Council's capital expenditure was treated as not enhancing the value of assets and was written off to the Fixed Asset Restatement Account. The SORP encourages local authorities to treat all capital expenditure as enhancing the value of assets.

<b>Movement on Operational Fixed Assets During 2009/10</b>					
	<u>Council</u> Dwellings	<u>Other Land</u> and Buildings	<u>Vehicles, Plant</u> and Equipment	<u>Infrastructure</u>	£000
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
At 1 April 2009	<b>663,310</b>	<b>643,230</b>	<b>7,875</b>	<b>106,571</b>	<b>1,420,986</b>
PYA - PFI / IFRIC 12 Service Concessions		<b>71,685</b>			<b>71,685</b>
	<b>663,310</b>	<b>714,915</b>	<b>7,875</b>	<b>106,571</b>	<b>1,492,671</b>
Additions	29,595	25,274	3,674	14,368	72,911
Disposals	(2,018)	(64)	(595)		(2,677)
Reclassifications	503	9,302		(125)	9,680
Revaluations	21,278	2,488			23,766
Impairments	0	(7,115)			(7,115)
<b>At 31 March 2010</b>	<b>712,668</b>	<b>744,800</b>	<b>10,954</b>	<b>120,814</b>	<b>1,589,236</b>
<b>Depreciation and Impairment</b>					
At 1 April 2009		<b>(54,823)</b>	<b>(2,244)</b>	<b>(9,620)</b>	<b>(66,687)</b>
PYA - PFI / IFRIC 12 Service Concessions		<b>(1,933)</b>			<b>(1,933)</b>
		<b>(56,756)</b>	<b>(2,244)</b>	<b>(9,620)</b>	<b>(68,620)</b>
Depreciation charge for year	(15,062)	(19,001)	(1,153)	(2,326)	(37,542)
Disposals			595		595
Reclassifications					0
Revaluations					0
Impairments					0
<b>At 31st March 2010</b>	<b>(15,062)</b>	<b>(75,757)</b>	<b>(2,802)</b>	<b>(11,946)</b>	<b>(105,567)</b>
<b>Balance Sheet amount at 31st March 2010</b>	<b>697,606</b>	<b>669,044</b>	<b>8,152</b>	<b>108,868</b>	<b>1,483,670</b>
<b>Restated Balance Sheet amount at 31st March 2009</b>	<b>663,310</b>	<b>658,160</b>	<b>5,631</b>	<b>96,951</b>	<b>1,424,052</b>
<b>Nature of Asset Holding</b>					
Owned	697,606	601,224	8,152	108,868	1,415,850
Finance Lease					0
PFI		67,820			67,820
	<b>697,606</b>	<b>669,044</b>	<b>8,152</b>	<b>108,868</b>	<b>1,483,670</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

<b><u>Movement on Non - Operational Fixed Assets During 2009/10</u></b>				
	Investment	Under Construction	Surplus held for Disposal	<b>Total</b>
	£000	£000	£000	£000
<b>Cost or Valuation</b>				
At 1 April 2009	<b>123,957</b>	<b>9,734</b>	<b>325</b>	<b>134,016</b>
Additions	692	2,501		3,193
Disposals	(660)			(660)
Reclassifications	(4,341)	(7,417)	2,077	(9,681)
Revaluations	3,500		6,046	9,546
Impairments (inc reversal of Previous impairments)	10,419		(12)	10,407
<b>At 31 March 2010</b>	<b>133,567</b>	<b>4,818</b>	<b>8,436</b>	<b>146,821</b>
<b>Depreciation and Impairment</b>				
At 1 April 2008	0	0	(37)	(37)
Depreciation charge for year			(288)	(288)
Disposals				0
Reclassifications				0
Revaluations				0
Impairments				0
<b>At 31st March 2010</b>	<b>0</b>	<b>0</b>	<b>(325)</b>	<b>(325)</b>
<b>Balance Sheet amount at 31st March 2010</b>	<b>133,567</b>	<b>4,818</b>	<b>8,111</b>	<b>146,496</b>
<b>Balance Sheet amount at 31st March 2009</b>	<b>123,957</b>	<b>9,734</b>	<b>288</b>	<b>133,979</b>
<b>Nature of Asset Holding</b>				
Owned	133,567	4,818	8,111	146,496
Finance Lease				0
PFI				0
	<b>133,567</b>	<b>4,818</b>	<b>8,111</b>	<b>146,496</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

Capital expenditure and how it was financed is analysed below:

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b>2008/09</b> £'000s	<b>2009/10</b> £'000s
<b>Opening Capital Financing Requirement</b>	204,244	275,701
PYA - PFI Schemes	55,419	-
Restated CFR	<u>259,663</u>	<u>275,701</u>
* 07/08 Adjustment	4,013	-
<b>Adjustment for</b>		
Deferred Assets	1,045	-
PYA - PFI Schemes	(1,045)	-
<b>Capital Investment</b>		
Intangible assets	272	140
Operational assets	58,295	72,911
Non - operational assets	5,833	3,193
Revenue Expenditure Funded from Capital under Statute	7,937	7,823
<b>Sources of Finance</b>		
Capital Receipts	(8,762)	(6,744)
Government grants & other contributions	(32,466)	(38,161)
Direct Revenue Financing	(9,622)	(14,242)
Deferred Assets	(1,045)	-
PYA - PFI Schemes	1,045	-
MRP	(5,197)	(7,338)
PYA - PFI Schemes	(4,278)	-
Other Adjustments	13	(240)
<b>Closing Capital Financing Requirement</b>	<u>275,701</u>	<u>293,043</u>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by Government financial assistance)	8,782	10,416
Increase in underlying need to borrow (unsupported by Government financial assistance)	12,709	14,504
MRP	(5,197)	(7,338)
PYA - PFI Schemes	(4,278)	-
Other Adjustments	4,022	(240)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<u>16,038</u>	<u>17,342</u>

## \* 07/08 Adjustment

The Capital Expenditure and Financing note was incorrect in 07/08 as the Capital Financing Requirement Calculation omitted the Assets transferred to Capita £3,247k and the £766k deferred Consideration in respect of the Schools PFI Scheme.

The Capital Financing Requirement has been restated as a result of the requirement to bring onto the Balance Sheet Fixed Assets associated with PFI Schemes and IFRIC 12 Service Concession arrangements

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 13. Commitments Under Capital Contracts

The Council has a number of major contracts that run beyond 31st March 2010, totalling £50M, these are summarised below.

<u>Significant Commitments for Capital Expenditure After 31 March 2010</u>	
	£000's
Purchase of Number 1, Guildhall Square (previously Regional Business Centre)	25,003
Decent Homes/Decent Homes Plus	9,128
Tudor House Museum	3,295
Guildhall Square	2,400
Sea City Museum	1,580
Primary Review	1,372
St James Park Implementation	1,361
Other	5,841
<b>Total</b>	<b>49,980</b>

## 14. Assets Held

A summary of the major assets owned by the Council is as follows:

<u>Estimate of Major Fixed Assets of the Council</u>		
	31.03.09	31.03.10
	No,s	No,s
Council Dwellings	17,199	17,064
Shops	231	231
Other Commercial Properties	170	170
Civic Centre	1	1
Depots	2	2
Central and Area Offices	4	4
Nursery Schools	1	1
Infant/Primary schools	45	45
Junior Schools	16	16
Secondary Schools	9	7
PFI Secondary Schools	3	3
Academies	0	2
Special schools	5	5
Activity Centres and Youth Clubs	12	12
Children's Services - residential centres	2	2
Social Services-residential centres	6	6
Social Services-day centres	8	8
Off Street Car Parks	50	50
Libraries	8	8
Leisure Centres and Pools	6	6
Museums, Galleries and Related	6	6
Roads-Length (km)	579	579
Open Spaces and Recreation Areas (hectares)	977	977
Markets	1	1
Cemeteries	6	6
Crematorium	1	1
Toilets	28	28
Ski Slope	1	1
Golf Course	1	1
Local Housing Offices/Advice Centres	13	13
Laboratory	1	1

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 15. Leasing

### a) Finance Leases

The Council holds 4 finance leases relating to vehicles and equipment. These are all in their secondary period, for which a peppercorn rent is paid, amounting to £208 during 2009/10 and £208 for 2010/11 and thereafter until assets are disposed. No new finance leases were entered into during the year. As these assets are expected to be disposed of within the next 3 years, total outstanding obligations relating to finance leases amount to less than £600.

### b) Operating Leases

During 2009/10, £2,030k was paid out in respect of operating lease rentals for vehicles and equipment. As at 31 March 2010 the Council has a commitment to meet leasing rentals on these of £3,715k until 2018/19.

The Council also has commitments on the following buildings amounting to £854k, detailed as follows; Castle Way £396k; Southbrook Rise £191k; Frobisher House £267k. In 2008/09 accounts, an estimated rental figure of £34,555k was included in respect of a 40 year lease commitment for Number 1, Guildhall Square (previously known as the Regional Business Centre). This is no longer included in the table below because the Council will be completing the purchase of the property in July 2010.

The table below details the financial commitment over the various years.

Operating Leases			
	Vehicles & Equipment £'000's	Land & Buildings £'000's	Total £'000's
2010/11	1,338	562	1,900
2011/12 - 2014/15	2,363	292	2,655
2015/16 - 2021/22	14	0	14
	<u>3,715</u>	<u>854</u>	<u>4,569</u>

A requirement under the Accounting Code of Practice 1998 is for operating leases to be accounted for net of benefits received or receivable, as some leasing companies offer a cash incentive at the start of the lease. The Code now requires this incentive to be accounted for over the term of the lease. The City Council has no leases that fall into this category.

## 16. Minimum Revenue Provision (MRP)

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. The method of calculating the provision is defined by statute. In addition voluntary repayments are being made in respect of unsupported borrowing. The table below details the amounts set aside in the year.

2008/09 £000's	2009/10 £000's
4,176 Statutory amount charged to Revenue	4,827
833 Payments to HCC in respect of transferred debt	799
<u>5,009</u>	<u>5,626</u>
PFI Schemes	1,424
4,278 PYA - PFI Schemes	
188 Voluntary repayments	288
<u>9,475</u>	<u>7,338</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 17. Interest and Investment Income

The table below details the amounts for the year.

<u>2008/09</u> £000's	<u>2009/10</u> £000's
4,106 Temporary Investments	1,014
684 HRA Cash Balances	79
449 Other	482
<u>5,239</u>	<u>1,575</u>

## 18. Interest Payable and Similar Charges

The table below details the amounts for the year.

<u>2008/09</u> £000's	<u>2009/10</u> £000's
5,286 Interest on External Loans	2,604
952 Payments to HCC in respect of Transferred Debt	592
1,326 Interest on Funds held PFI Schemes	245
3,429 PYA - PFI Schemes	3,155
<u>10,993</u>	<u>6,596</u>

## 19. Assets – Valuation Information

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by the Authority's Valuers, under the guidance of Paul Mansbridge (FRICS). The basis for valuation is set out in the statement of accounting policies.



# NOTES TO THE CORE FINANCIAL STATEMENTS

## a) Operational Assets

<u>Valuations of Tangible Fixed Assets carried at Current Value</u>					
Operational Assets					
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	<u>Total</u> £000
<b>Valued at Historic Cost</b>			8,152	108,868	<b>117,020</b>
<b>Valued at Current Value</b>					
<b>in:</b>					
2009/10	697,606	14,027			<b>711,633</b>
2008/09		96,531			<b>96,531</b>
2007/08		55,973			<b>55,973</b>
2006/07		2,144			<b>2,144</b>
2005/06		500,369			<b>500,369</b>
<b>Net Book Value of Fixed Assets at 31 March 2010</b>	<b>697,606</b>	<b>669,044</b>	<b>8,152</b>	<b>108,868</b>	<b>1,483,670</b>

## b) Non Operational Assets

<u>Valuations of Tangible Fixed Assets carried at Current Value</u>				
Non - Operational Assets				
	Investment £000	Under Construction £000	Surplus held for Disposal £000	<u>Total</u> £000
<b>Valued at Historic Cost</b>		4,818		<b>4,818</b>
<b>Valued at Current Value</b>				
<b>in:</b>				
2009/10	37,523		5,932	<b>43,455</b>
2008/09	54,376		1,450	<b>55,826</b>
2007/08	12,967		148	<b>13,115</b>
2006/07	4,439		0	<b>4,439</b>
2005/06	24,262		581	<b>24,843</b>
<b>Net Book Value of Fixed Assets at 31 March 2009</b>	<b>133,567</b>	<b>4,818</b>	<b>8,111</b>	<b>146,496</b>

## 20. Intangible Assets

Intangible fixed assets are defined as “non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal right”. The types of assets normally included within this definition are purchased software.

Intangible assets are amortized to service revenue accounts (from the year following acquisition) over their economic lives.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Purchased Software	
	£000's
Original Cost	1,234
Amortisation to 1st April 2009	(522)
<b>Balance at 1st April 2009</b>	<b>712</b>
Expenditure in Year	140
Written off to Revenue in Year	(243)
<b>Balance at 31st March 2009</b>	<b>609</b>

Expenditure on intangible assets in 2009/10 all relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset. Significant items purchased during the year include £43k for Congestion Modelling Software £33k for Network Management Modelling and £23k for Energy Management software.

### 21. Analysis of Net Assets Employed

In accordance with SSAP 25 there is a requirement to disclose the breakdown of the Authority's overall net asset position; this is detailed in the table below. Net assets have mainly decreased due to and an increase in the Pension Fund Liability of £111M which has been partly offset by Fixed Asset revaluations of £33M

<u>2008/09</u> £000's	<u>2009/10</u> £000's
373,088 General Fund	284,921
621,025 Housing Revenue Account	638,401
<b>994,113</b>	<b>923,322</b>

### 22. Interest in Companies

The Council does not have group account relationships with any companies.

See *Accounting Policies (17)* for further information.

### 23. Capital Instruments

The Council does not have any capital instruments listed or publicly traded on a stock exchange or market.

### 24. Borrowing

#### *Loans Falling due Within One Year*

This is made up of long term loans maturing within the next financial year and loans that are of less than one year that are raised through the Money Market which Local Authorities may borrow temporarily pending the receipt of revenues and in order to finance capital expenditure.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> 31.03.09	<u>Loan</u> <u>Principal</u>	<u>Accrued</u> <u>interest</u>	<u>Financial</u> <u>Instrument</u> <u>Adjustment</u>	<u>Outstanding</u> 31.03.10
£000's	£000's	£000's	£000's	£000's
<u>Source of Loan</u>				
33,041 Public Works Loan Board	19,029	103	232	19,364
16,812 Other Financial Institutions	31,594	120	0	31,714
<b>49,853</b>	<b>50,623</b>	<b>223</b>	<b>232</b>	<b>51,078</b>

### Long-Term Borrowing

In the Balance Sheet borrowing represents loans outstanding to external lenders.

<u>Outstanding</u> 31.03.09	<u>Loan</u> <u>Principal</u>	<u>Accrued</u> <u>interest</u>	<u>Financial</u> <u>Instrument</u> <u>Adjustment</u>	<u>Outstanding</u> 31.03.10
£000's	£000's	£000's	£000's	£000's
<u>Source of Loan</u>				
67,558 Public Works Loan Board	92,971	0	326	93,297
11,721 Other Financial Institutions	11,623	0	0	11,623
<b>79,279</b>	<b>104,594</b>	<b>0</b>	<b>326</b>	<b>104,920</b>
<u>Analysis of Loans by Maturity</u>				
17,396 Between 1 and 2 years	9,118	0	239	9,357
20,783 Between 2 and 5 years	19,747	0	87	19,834
2,100 Between 5 and 10 years	36,729	0	0	36,729
21,000 Between 25 and 35 years	21,000	0	0	21,000
18,000 Between 40 and 50 years	18,000	0	0	18,000
<b>79,279</b>	<b>104,594</b>	<b>0</b>	<b>326</b>	<b>104,920</b>

## 25. Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current		Total	
	31st March 2009	31st March 2010	31st March 2009	31st March 2010	31st March 2009	31st March 2009
	£000	£000	£000	£000	£000	£000
Financial liabilities at amortised cost						
- Borrowing - <b>see note 24</b>	79,279	104,920	49,853	51,078	129,132	155,998
- Deferred Liabilities - <b>see note 48</b>	19,987	19,188			19,987	19,188
Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
<b>Total borrowings</b>	<b>99,266</b>	<b>124,108</b>	<b>49,853</b>	<b>51,078</b>	<b>149,119</b>	<b>175,186</b>
Loans and Receivables	3,036	36	21,900	40,662	24,936	40,698
Available-for-sale financial assets	6,315	6,378	0	0	6,315	6,378
Unquoted equity investment at cost	0	0	0	0	0	0
<b>Total investments</b>	<b>9,351</b>	<b>6,414</b>	<b>21,900</b>	<b>40,662</b>	<b>31,251</b>	<b>47,076</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 26. Financial Instruments Gains/Losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	2009/10			
	Financial Liabilities	Financial Assets		Total £000
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	
Interest expense	(3,196)	0	0	
Losses on derecognition	(60)	0	0	
Impairment Losses	0	0	0	
<b>Interest payable and similar charges</b>	<b>(3,256)</b>	<b>0</b>	<b>0</b>	<b>(3,256)</b>
Interest income	0	1,014	0	
Gains on derecognition	89	0	0	
<b>Interest and investment income</b>	<b>89</b>	<b>1,014</b>	<b>0</b>	<b>1,103</b>
Gains on revaluation			56	
Losses on revaluation			(44)	
Amounts recycled to the I&E Account after impairment			0	
<b>Surplus arising on revaluation of financial assets</b>			<b>12</b>	
<b>Net gain / (loss) for the year</b>	<b>(3,167)</b>	<b>1,014</b>	<b>12</b>	

During 2009/10 the Council restructured some of its debt portfolio with the PWLB. When loans are repaid before their maturity dates there may be a premium charged or discount received which will depend on the interest rate of the loan being repaid and current loan interest rates on offer. The treatment of the premiums and discount varies according to whether a loan has been extinguished or modified (i.e. a new loan has been taken which is considered to be an exchange for the loan that has been repaid).

Where the restructuring results in an 'extinguishment' regulations allow the impact on the General Fund balance to be spread over future years. Premiums and discounts are spread over the lesser of the unexpired term of the repaid loan or ten financial years.

When a 'modification' occurs the premium or discount incurred is added to the value of the new loan and recovered via the Effective Interest rate calculation, which is derived by adding the interest due on the new loan to the discount or premium and recalculated to recover the net balance over the life of the new loan.

The table below shows the gains and losses relating to financial instruments, for the previous year as a comparative to the table above.

# NOTES TO THE CORE FINANCIAL STATEMENTS

	2008/09			
	Financial Liabilities	Financial Assets		Total £000
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available-for-sale Assets £000	
Interest expense	(6,238)	0	0	
Losses on derecognition	(41)	0	0	
Impairment Losses	0	0	0	
<b>Interest payable and similar charges</b>	<b>(6,279)</b>	<b>0</b>	<b>0</b>	<b>(6,279)</b>
Interest income	0	4,106	152	
Gains on derecognition	59	0	0	
<b>Interest and investment income</b>	<b>59</b>	<b>4,106</b>	<b>152</b>	<b>4,317</b>
Gains on revaluation			314	
Losses on revaluation			0	
Amounts recycled to the I&E Account after impairment			0	
<b>Surplus arising on revaluation of financial assets</b>			<b>314</b>	
<b>Net gain / (loss) for the year</b>	<b>(6,220)</b>	<b>4,106</b>	<b>466</b>	

## 27. Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The 2007 SORP requires the Fair Values of these assets and liabilities to be disclosed for comparison purposes. Fair Value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair Values have been calculated as follows:

- PWLB Debt – confirmation of Fair Values from the PWLB. The 2009 figure has been calculated by reference to the 'premature repayment' set of rates in force on 31 March 2010. The 2009 figure has been calculated by reference to the set of rates in force on 30 March 2010.
- Long Term Market Debt – based on premature redemption figures quoted by the banks concerned. Where this information was not available a calculation has been made based on the information provided by other banks for similar loans.
- Deferred Liabilities - this relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts. HCC hold this balance within their debt portfolio and is made up of a number of long and short term loans and it is not possible to get a fair value so these have been included at balance sheet amount.
- Long Term Debtors:
  - Mortgages. These relate mainly to loans outstanding for the purchase of council houses. The fair value has been calculated on a discounted cash flow basis using a discount rate of 2.21%.
  - IT Assets transferred to Capita. This represents the benefit the Council receives from transferring IT assets to the contract with Capita in the form of lower contract charges. This is deemed to be the fair value and is therefore not included in the table below.
- Eurosterling Bonds – quoted Bid price at 31 March published by Bloomberg. These are carried on the Balance Sheet at Fair Value but are included in the table below for completeness.
- Gilts. The Council holds a small number of gilts. The fair value has been calculated by reference to published market prices.

Disclosure is not required where the carrying amount of an instrument is not materially different from the fair value. The tables below therefore excludes debtors and creditors (**see note 45**) as the fair value of these instruments are deemed to approximate to the carrying amount. Short term borrowing and investments are also deemed to approximate to the carrying amount but are included in the table for ease of comparison to **notes 24 and 25**.

The fair values calculated are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Financial liabilities</b>	<b>31 March 2009</b>		<b>31 March 2010</b>	
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Carrying amount</b>	<b>Fair Value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing	129,132	133,655	155,998	159,659
Deferred Charges	19,987	19,987	19,188	19,188
<b>Total Financial Liabilities</b>	<b>149,119</b>	<b>153,642</b>	<b>175,186</b>	<b>178,847</b>

The fair value is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the premature repayment rates available for similar loans at the balance sheet date. The commitment to pay interest above these rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	<b>31 March 2009</b>		<b>31 March 2010</b>	
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Carrying amount</b>	<b>Fair Value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loans and receivables	3,144	3,149	94	92
Available-for-sale financial assets	6,000	6,315	6,000	6,378
	<b>9,144</b>	<b>9,464</b>	<b>6,094</b>	<b>6,470</b>

## 28. Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team with advice from external Treasury Management advisors, under policies approved by the Council in the annual Treasury Management Strategy. The authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. The Council had a credit risk policy of not placing deposits with banks and financial institutions unless they were rated independently with a minimum score (Fitch Long Term rating) of A. However, since the recent uncertainties in the financial markets associated with the 'credit crunch' the Council has proactively reviewed this policy and increased the minimum criteria.

The table below summarises the nominal value of the Council's short term investment portfolio at the end of each financial year into the relevant credit rating.

# NOTES TO THE CORE FINANCIAL STATEMENTS

Credit Rating	31st March 2009		31st March 2010	
	£000	%	£000	%
A-	9,000	37%	0	0%
A	0	0%	0	0%
A+	0	0%	18,430	46%
AA-	8,400	35%	10,000	25%
AA	0	0%	0	0%
AA+	0	0%	0	0%
AAA	6,635	28%	11,795	29%
<b>Total Investments</b>	<b>24,035</b>	<b>100%</b>	<b>40,225</b>	<b>100%</b>

The table below summarises the maturity profile of the Council's short term investments together with the long and short term credit ratings of the institutions with which funds have been deposited

Outstanding Investments as at 31st March 2010									
Country	Current Long		Sovereign Rating (LCD approach)	Under 1 Month	1-3 Months	3-6 Months	6-9 Months	Total	
	Term rating (LCD approach)	Original Long Term rating							
<b>UK</b>									
Bank Deposits *	A+	AA+	AAA	0	3,000	0	0	3,000	
Bank Deposits *	A+	AA-	AAA	5,230	0	4,200	2,050	11,480	
Bank Deposits *	AA-	AA-	AAA	1,750	0	3,500	4,750	10,000	
Building Societies *	A+	AA-	AAA	0	0	2,000	1,950	3,950	
Gov't & Local Authority Deposits	AAA	AAA	AAA	1,150	0	0	0	1,150	
Money Market Funds	AAA	AAA	AAA	10,645	0	0	0	10,645	
<b>Total Investments</b>				<b>18,775</b>	<b>3,000</b>	<b>9,700</b>	<b>8,750</b>	<b>40,225</b>	

\* Institutions which have access to the UK Government Credit Guarantee Scheme

## Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 25% of loans are due to mature within the next 12 month period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of the Council's borrowing is shown in note 30. All trade and other payables are due to be paid in less than one year.

## Market Risk

### Interest Rate Risk

The Authority is exposed to risks in terms of its exposure to interest rate movements on its borrowings and investments.

The Authority has a number of strategies for managing interest rate risk. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 50% on external debt that can be subject to variable interest rates. During periods of falling interest rates, and where economic circumstances make it favourable,

## NOTES TO THE CORE FINANCIAL STATEMENTS

fixed rate loans will be repaid early to limit exposures to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and forecasts during the year. This allows any adverse changes to be accommodated.

However, as all the Council's investments are at fixed rates and all debt is at fixed rates there is no impact on interest payable or receivable on borrowings and investments at 31 March 2010 from any changes in interest rates.

### Price Risk

The Authority does not invest in equity shares and has no shareholdings in any companies. Therefore, the Authority has no exposure to losses arising from share prices.

### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 29. Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible i.e. where the Authority has taken advantage of 'self-insurance'. All liability and property claims settled below £100k and £20k respectively are met from the internal insurance funds. All Directorates are required to contribute toward this fund as part of their annual insurance recharge. Contributions to the fund are reviewed annually based on factors such as exposure (e.g. employee numbers, nature of operations, value of property etc) claims experience and outstanding liabilities.

The estimated outstanding reserve for 'claims reported but not settled' as at 31st March 2010 amounted to £4.103m with a closing fund balance of £7.374m. With regard to the outstanding reserve figure, the Councils insurers allocate a claim reserve figure in respect of each and every claim received. This figure represents their initial estimate of the potential cost of the claim and is amended as necessary until the claim is settled. Liability claims represent the vast majority of the total outstanding reserve figure however unlike property claims there is no commitment on the Council to pay the claim. The merits of each individual claim are investigated and claims will only be paid where it is deemed that the Council has been negligent and is legally liable to pay compensation. The reserve figure against a particular claim will also be reviewed periodically by the claims handler when further information becomes available regarding the merits of the case, extent of injury, value of loss etc.

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

## 30. 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:



# NOTES TO THE CORE FINANCIAL STATEMENTS

	£000's			Balance at 31st March 2010
	Balance at 1st April 2009	Receipts in Year	Payments in Year	
<b>General Fund</b>				
Itchen Bridge Repairs	1,255	190	0	1,445
General Insurance Funds	6,708	3,251	(2,585)	7,374
UPVC Plant	184	0	(27)	157
Other Provisions	105	0	0	105
<b>Total</b>	<b>8,252</b>	<b>3,441</b>	<b>(2,612)</b>	<b>9,081</b>

## 31. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. An analysis of Reserves shown in the balance sheet, are detailed below.

All interest earned on the reserves together with interest earned on General Fund Capital Receipts Unapplied is reflected in the General Fund Revenue account in 2009/10. The level of school balances is the result of the spending decisions of individual schools under the Local Management of Schools legislation. Each school's reserve will be available to it in future years. A statement of all Revenue Reserves is shown in **note 31 (e)**.

	Balance at 1st April 2009 £'000	Net Movement in year £'000	Balance at 31st March 2010 £'000	Purpose of Reserve	Further Detail of movement
Revaluation Reserve	54,043	32,303	86,346	Gains on revaluation of fixed assets	a) below
Capital Adjustment Account	1,188,185	10,211	1,198,396	Records all movement on fixed assets with the exception of revaluation reserves	b) below
Usable Capital Receipts	6,015	(4,941)	1,074	Proceeds of fixed asset sales available to meet future capital investments	c) below
Pension Reserve	(297,970)	(111,020)	(408,990)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	Note 38 to the Core Financial Statements
Housing Revenue Account	2,387	(798)	1,589	Resources available to meet future running costs of housing services.	HRA Statements
Collection Fund Balance		0		See Collection Fund Adj. Account	See Below
Collection Fund Adj. Account	1,949	(70)	1,879	Southampton City Council's share of the Collection Fund surplus.	Collection Fund Statement
Available-for-Sale Financial Instruments Reserve	334	12	346	Movement in fair value on investment bond due to changing economic conditions	Note 26 to the Core Financial Statements
Financial Instrument Adjustment Account	327	294	621	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	d) below
General Fund Balances	15,183	4,605	19,788	Resources available to meet future running costs of non- housing services.	Statement of Movement on the General Fund Balance
Other Reserves	23,660	(1,387)	22,273		e) below
<b>TOTAL RESERVES</b>	<b>994,113</b>	<b>(70,791)</b>	<b>923,322</b>		

### a) Revaluation Reserve

This reserve is debited or credited with the impact of the revaluation of assets since the 1 April 2007. The size of the Reserve of £86M shows the major impact that the valuing of fixed assets has had on the Council's Accounts. It is, however only a notional reserve and cannot be used as a source of finance.

## NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09		2009/10
£000's		£000's
41,039	Balance Brought Forward	54,043
(4,926)	Revaluations in year	33,312
18,381	PYA - PFI Schemes	-
(238)	Accumulated Revaluations on Disposals	(215)
(213)	Historic Cost Depreciation Adjustment	(794)
<b><u>54,043</u></b>	<b>Balance Carried forward</b>	<b><u>86,346</u></b>

### b) Capital Adjustment Account

As a result of accounting requirements for fixed assets this account has been created for transactions relating to capital assets with the exception of gains on revaluation which has a separate reserve from the 1 April 2007, as detailed above. Gains prior to that date have been consolidated into this account which also records depreciation, expenditure on fixed assets financed from revenue, reserved proportion of capital receipts and capital receipts applied to finance expenditure on fixed assets.

The Comparative figures have been restated to incorporate the adjustments required due to the Change in Accounting Policy in respect of the treatment of the Schools PFI and the Hampshire Waste Contract which required to be brought on Balance Sheet in accordance with IFRIC 12.

2008/09		2009/10
£000's		£000's
1,369,881	Balance Brought Forward	1,188,185
(6,018)	PYA - PFI Schemes	-
<u>1,363,863</u>	Restated Balance	<u>1,188,185</u>
	<b>CAPITAL FINANCING</b>	
8,762	Usable Capital Receipts	6,744
8,765	Capital Grants & Contributions	9,480
12,206	Major Repairs Allowance	15,061
9,622	Revenue Contributions	14,242
	<b>OTHER MOVEMENTS</b>	
(11,093)	Revenue Expenditure Funded from Capital under Statute (07/08 - Deferred Charges)	(7,823)
3,157	PYA - Hampshire Waste	-
1,045	Deferred Assets	-
(1,045)	PYA - PFI Deferred Asset - No longer Required	-
(303)	Deferred Considerations	(283)
33	PYA - Deferred Consideration - No longer Required	-
(215,144)	Depreciation & Impairment	(34,781)
(1,932)	PYA - PFI Depreciation	-
(3,285)	Disposals	(2,742)
213	Historic Cost Depreciation Adjustment	794
238	Accumulated Revaluations on Disposals	215
0	Adjustment to HRA Assets Opening Balance	-
5,197	MRP	7,338
4,278	PYA -PFI Schemes	0
3,622	Government Grants Deferred	1,727
(13)	Other	239
<b><u>1,188,185</u></b>		<b><u>1,198,396</u></b>

### c) Useable Capital Receipts Reserves

Capital receipts are generated from the sale of fixed assets. The following table shows the extent to which the capital receipts have been generated and utilised in the year. 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. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all

## NOTES TO THE CORE FINANCIAL STATEMENTS

the proceeds from certain HRA assets where they are used to fund affordable housing or regeneration schemes.

2008/09 <u>Total</u>		2009/10		<u>Total</u>
		<u>Housing Revenue</u>	<u>General</u>	
		<u>Account</u>	<u>Fund</u>	
£000's		£000's	£000's	£000's
11,665	Opening Balance at 1st April	161	5,854	6,015
	Receipts in Year:-			
	Sale of Assets			
2,191	Council Housing	2,285	0	2,285
2,463	Land, Buildings & Equipment	389	858	1,247
44	Repayment of Advances	34	0	34
22	Other	0	0	0
16,385		2,869	6,712	9,581
(62)	Allowable deduction arising from Disposal	(71)	0	(71)
16,323		2,798	6,712	9,510
	Application in Year:-			
0	Inter Portfolio Transfer	(599)	599	0
(8,762)	Financing of new Capital Expenditure	0	(6,744)	(6,744)
(1,585)	Pooled Receipts	(1,704)	0	(1,704)
39	Other Adjustments	0	12	12
<b>6,015</b>	<b>Closing Balance at 31st March</b>	<b>495</b>	<b>579</b>	<b>1,074</b>

### d) Financial Instrument Adjustment Account

Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments, mainly as a result of debt restructure.

2008/09		2009/10
£000's		£000's
0	Balance Brought Forward	327
864	Discounts on Early Repayments of Loans	(89)
(599)	Premiums on Early Repayments of Loans	60
62	HRA Item 8 adjustments	315
0	Other	8
<b>327</b>	<b>Balance Carried forward</b>	<b>621</b>

### e) Other Earmarked Reserves

These are monies set aside for specific reasons but have yet to be applied for that purpose.

<u>31st March</u> <u>2009</u>		<u>Net Movement</u> <u>in Year</u>	<u>31st March</u> <u>2010</u>
£000's	<b>Other Earmarked Reserves</b>	£000's	£000's
4,571	PFI Sinking Fund	(57)	4,514
34	SCC External Investments	0	34
900	Southampton City Training Reserve *	(852)	48
5,674	School Balances	1,632	7,306
1,832	On Street Parking	300	2,132
238	Transport Repairs Reserve	(122)	116
	Interest Equalisation Reserve	1,500	1,500
206	Transformation Top Up Reserve	(206)	0
17	Housing Act Advances	0	17
10,114	Housing Revenue Contributions to Capital	(3,831)	6,283
74	Cremator Replacement	249	323
<b>23,660</b>		<b>(1,387)</b>	<b>22,273</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

\* Southampton City Training Reserve £900k – Balance incorrectly included within Government Grants and Contributions Unapplied in 08/09 Accounts – Balances Restated see also notes 3 & 58.

### 32. Contingent Liabilities and Assets

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

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

The Council has received a number of equal pay claims which are due to proceed to Tribunal. These claims are currently being assessed and reviewed by a Barrister appointed by the Council. At this stage the Council has not accepted the validity of any claims received, will be challenging claims as appropriate and has therefore not made a provision in the accounts.

### 33. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by the council's Standards and Governance Committee on 25 June 2010.

### 34. Post Balance Sheet Events

There are no post balance sheet events to report.

### 35. Trust Funds

As required by the Statement of Recommended Practice, Trust Funds do not represent assets of the Council and have not been included into the Council's Balance Sheet. For details of Trust Funds where the Council is sole trustee see **Trust and Other Funds section**.

### 36. Reserves and Balances held by Schools

These are balances held by schools under delegated schemes and are committed to be spent on education services. School balances as at 31 March 2010 (31st March 2009) totalled £7,306k (£5,674k), consisting of £7,505k (£5,940k) reserves and £199k (£266k) loans.

### 37. Amounts Due to or from Related Parties

As at 31 March 2010, significant monies outstanding from related parties were:

2008/09		2009/10	
£000's		£000's	
	<u>Money Owed to SCC</u>		
1,830	HM Revenues & Customs (VAT)	7,188	
3,088	Department for Works & Pensions (Housing Benefits)	3,938	
3,418	Department of Communities and Local Government	6,815	
1,230	Department for Children Schools & Families (DCSF)	0	
<b>9,566</b>	<b>Balance Carried forward</b>	<b>17,941</b>	

There are no doubtful debts included within these figures. In contrast the Council owed money in respect:

## NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09	<u>Money Owed by SCC</u>	2009/10
£000's		£000's
4,429	National Insurance & PAYE	4,302
2,047	Local Government Superannuation	4,113
882	Teacher's Superannuation	893
3,457	Department for Children Schools & Families (DCSF)	2,715
3,921	Department of Communities and Local Government	5,172
<b>14,736</b>	<b>Balance Carried forward</b>	<b>17,195</b>

### 38. Retirement Benefits

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

The authority participates in two schemes:

- The Local Government Pension Scheme through Hampshire County Council Pension Fund – this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions - this is a defined benefit scheme that is unfunded, Teachers' Pensions use a notional fund basis for calculating employers' contribution rate paid by local education authorities. However, there is no accumulation of investment assets built up to meet pension liabilities. As a result scheme liabilities cannot be attributed to individual local authorities on a consistent and reasonable basis. So in accordance with FRS17, pension costs are recorded as if the scheme was a defined contribution scheme.

#### a) Current Service Costs

In 2009/10, the Council paid an employer's contribution of £22.5M (08/09 - £22.0M) into Hampshire County Council's Pension Fund, equating to 18.6% of gross pay (08/09 – 18.1% of employee's contributions). The contribution rate is determined by the Fund's Actuary, based on triennial valuations. As a result of the new LGPS the employers' contributions are now related to gross pay and this will increase to 19.1% in 2010/11.

The authority 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 retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The tables below show the transactions that have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

	<u>2008/09</u>		<u>2009/10</u>	
	£000's	£000's	£000's	£000's
<b>Income and Expenditure Account</b>				
<i>Net Cost of Service</i>				
Current service costs		14,560		15,810
Past service costs		500		340
<i>Net Operating Expenditure</i>				
Interest Cost	36,800		40,110	
Expected return on assets in the scheme	(24,930)	11,870	(17,590)	22,520
<b>Net Charge to the Income and Expenditure Account</b>		<b>26,930</b>		<b>38,670</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2008/09</u>	<u>2009/10</u>
	£000's	£000's
<b>Statement of Movement in the General Fund Balance</b>		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(26,930)	(38,670)
<i>Actual amount charged against the General Fund Balance for Pensions in the Year:</i>		
Employers' contributions payable to scheme	<u>22,020</u>	<u>22,500</u>
	<u><b>(4,910)</b></u>	<u><b>(16,170)</b></u>

### b) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2010 are as follows:

	*	Restated	Restated	2008/09	2009/10
	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	£000's	£000's
	£000's	£000's	£000's	£000's	£000's
Present value of funded Liabilities in scheme (LGPS)	(512,160)	(551,180)	(505,100)	(571,440)	(791,560)
Present value of unfunded liabilities (Teachers & LGPS)	<u>(32,970)</u>	<u>(36,160)</u>	<u>(33,170)</u>	<u>(34,740)</u>	<u>(38,680)</u>
Total present value of liabilities	(545,130)	(587,340)	(538,270)	(606,180)	(830,240)
Fair value of Share of Assets in the Fund (as per Accounts)	335,130	369,210	373,960	308,210	421,250
PYA (Change in Accounting Policy)	-	(540)	(510)	-	-
Restated balance	<u>335,130</u>	<u>368,670</u>	<u>373,450</u>	<u>308,210</u>	<u>421,250</u>
<b>Net Asset / (Liability)</b>	<u><b>(210,000)</b></u>	<u><b>(218,670)</b></u>	<u><b>(164,820)</b></u>	<u><b>(297,970)</b></u>	<u><b>(408,990)</b></u>

\* The Council elected not to restate fair value of scheme assets for 2005/06 as permitted by FRS17 (as revised)

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £408,990k (08/09 £297,970k) has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good over time by increased contributions by the Authority and employees over the remaining working life of employees, at a level assessed by the scheme actuary.

### c) Assets and liabilities in relation to retirement benefits

The latest actuarial valuation of liabilities took place 31 March 2007 this has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2010.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciliation of present value of scheme liabilities

<u>2008/09</u> £000's	<u>2009/10</u> £000's
(538,270) Opening Balance	(606,180)
(14,560) Current Service Cost	(15,810)
(500) Past Service Costs (added years)	(340)
(36,800) Interest costs	(40,110)
(7,140) Contributions by Participants	(7,200)
(25,400) Actuarial Losses/(Gains) on liabilities	(180,450)
16,490 Net Benefits Paid Out	20,050
<b><u>(606,180)</u></b> Balance Carried Forward	<b><u>(830,040)</u></b>

### Reconciliation of fair value of schemes assets

<u>2008/09</u> £000's	<u>2009/10</u> £000's
373,450 Opening Balance	308,210
24,930 Expected Rate of Return	17,590
(102,840) Actuarial (Losses)/ Gain on assets	85,600
19,810 Contributions	20,210
7,140 Contributions by participants	7,200
(14,280) Net benefits paid out	(17,760)
<b><u>308,210</u></b> Balance Carried Forward	<b><u>421,050</u></b>

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2011 is £25.2m.

#### **Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2008/09	2009/10
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	22.3
Women	24.2	24.3
Longevity at 65 for future pensioners (currently aged 45):		
Men	24.5	24.7
Women	26.4	26.5
Inflation	3.6%	3.9%
Rate of general long-term increase in salaries	5.1%	5.4%
Rate of increase in pensions in payment	3.6%	3.9%
Rate of increase to deferred pensions	3.6%	3.9%
Discount rate	6.6%	5.5%
Commutation:		
Take-up option to convert maximum amount permitted pre 1 April 2008 pension entitlements	25.0%	25.0%
Take-up option to convert maximum amount permitted post 31 March 2008 pension entitlements	75.0%	75.0%

### Expected return on assets

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns with consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the asset allocation for the fund at 31 March 2010.

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return for FRS17 purposes.

	Long-term rate of return expected at 31st March 2009	Asset split at 31 March 2009	Long-term rate of return expected at 31st March 2010	Asset split at 31 March 2010
	(% pa)	(%)	(% pa)	(%)
Equities	7.0	55.2	8.0	61.3
Property	6.0	7.3	8.5	6.1
Government Bonds	4.0	27.4	4.5	24.4
Corporate Bonds	5.8	3.9	5.5	2.4
Cash	1.6	6.2	0.7	5.8
Other Assets	1.6	0.0	8.0	0.0
<b>Total</b>	<b>5.7</b>	<b>100.0</b>	<b>6.7</b>	<b>100.0</b>

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

The actuarial gains identified as movements on the pensions Reserve in 2009/10 and are analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2010:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	Actuarial Gain/(Loss) for Year										
	2005/06		2006/07		2007/08		2008/09		2009/10		
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	
Difference between the expected and actual return on assets	44,150	13.2	(490)	(1.0)	(32,240)	(8.6)	(102,840)	(33.4)	85,600	20.3	of scheme assets
Experience gains and losses on pension liabilities	120	0.0	(1,290)	(2.0)	(3,030)	(0.6)	(2,060)	(0.3)	6,610	0.8	of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(37,290)	(7.3)	4,040	7.0	101,490	18.9	(23,340)	(3.9)	(187,060)	(22.5)	of scheme liabilities
	<u>6,980</u>		<u>2,260</u>		<u>66,220</u>		<u>(128,240)</u>		<u>(94,850)</u>		

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

### e) Defined Contribution Schemes

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

In 2009/10 the City Council paid £7.3M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2008/09 were £7.6M and 14.1%.

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

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability described in note c) above.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 39. Notes to Cash Flow Statement

### a) Reconciliation of Surplus/(Deficit) to Net Cash Inflow/(Outflow) from Operating Activities

<u>2008/09</u> £000's		<u>2009/10</u> £000's	<u>2009/10</u> £000's
(192,504)	Income & Expenditure Account Surplus/ (Deficit)	(9,490)	
1,487	PYA Change in Accounting Policy (Collection Fund)	-	
1,737	Collection Fund Surplus or (Deficit)	-	
(1,737)	PYA Change in Accounting Policy (Collection Fund)	-	
1,333	PYA Change in Accounting Policy (PFI)	-	
<b>(189,685)</b>	<b>Restated Surplus/(Deficit) for the Year</b>		<b>(9,490)</b>
	<b>Non Cash Transactions</b>		
215,144	Depreciation & Impairment	34,781	
1,106	PYA - Schools PFI Depreciation	-	
826	- Hampshire Waste	-	
(3,621)	Deferred Grants amortised in year	(1,727)	
(742)	Net PFI debtor adjustments	283	
1,045	PYA Schools PFI Debtor no longer required	-	
(33)	PYA Schools PFI Donated Asset Write off no longer required	-	
(8,765)	Capital Grants & conts Applied not trans to GGD	(9,480)	
4,910	Pension Fund adjustments	16,170	
(327)	Other non cash Financial Instrument adjustments	(303)	
207	Contributions to Provisions	829	
7	Other items	912	
<b>209,757</b>			<b>41,465</b>
	<b>Adjustment for items reported seperately on Cashflow</b>		
(5,239)	Interest and Investment Income	(1,575)	
7,564	Interest payable and similar charges	6,596	
3,429	PYA Change in Accounting Policy (PFI) - Interest	-	
(1,401)	Gain or loss on the disposal of Fixed Assets	(836)	
<b>4,353</b>			<b>4,185</b>
	<b>Items on an Accrual Basis</b>		
42	(Increase)/Decrease in Stock	(101)	
3,293	(Increase)/Decrease in Debtors	(5,350)	
2,222	PYA Change in Accounting Policy (Collection Fund) (Increase)/Decrease in Debtors	-	
(4,229)	Increase/(Decrease) in Creditors	8,483	
(157)	PYA Change in Accounting Policy (Collection Fund) Increase/(Decrease) in Creditors	-	
<b>1,170</b>			<b>3,032</b>
<b>25,596</b>	<b>Net Cash Inflow/(outflow) from operating activities</b>		<b>39,192</b>

Revenue Expenditure Funded from Capital Under Statute (REFCUS) is now treated as Operational Cashflow and no longer itemised separately on the main Cashflow Statement. For 2008/09 the above table has been adjusted by removing £7,937k which related to REFCUS (08/09 £11,093k net of PYA of £3,156k Hampshire Waste Contract) and this has reduced the Restated Net cash inflow figure from £33,533k to £25,596k. On the main Cashflow Statement the REFCUS figure has also been removed and so the overall effect on cashflow is nil.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Analysis of Net Debt (Reconciliation of Net Debt to related items in Balance Sheet)

	<u>Cash</u>	<u>Short Term Investments</u>	<u>Amounts relating to major preceptors &amp; NNDR</u>	<u>Loans due within one year</u>	<u>Loans due after more than one year</u>	<u>Deferred Liabilities</u>	<u>Net Debt</u>
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 April 2009	(2,296)	21,900	2,200	(49,853)	(79,279)	(71,128)	(178,456)
Receipt/payment of interest accrued at last Balance Sheet date	0	(695)	0	174	0	0	(521)
Other Cashflows in year	(3,217)	16,190	3,949	(1,265)	(26,492)	2,222	(8,612)
Other Non Cash changes	0	3,267	0	(134)	851	0	3,984
<b>Balance at 31 March 2010</b>	<b>(5,513)</b>	<b>40,662</b>	<b>6,149</b>	<b>(51,078)</b>	<b>(104,920)</b>	<b>(68,905)</b>	<b>(183,605)</b>

### c) Reconciliation of changes in Cash to movement in Net Debt

<u>2008/09</u>		<u>2009/10</u>
£000's		£000's
5,164	Increase / (Decrease) in Cash	(3,217)
	<b>Cash inflow/(Outflow) from:</b>	
(49,463)	Management of Liquid Resources	19,444
	<b>Cash inflow from:</b>	
(279,120)	New loans raised	(288,800)
	<b>Cash outflow from:</b>	
295,101	Loans repaid	261,043
(1,598)	Premiums/Discounts paid on debt restructuring	0
120	Payment of interest accrued at last balance sheet date	174
	Deferred Liabilities repaid	
4,278	- PFI schemes	1,434
833	- HCC T transferred Debt	788
		263,439
<b>(24,685)</b>	<b>Change in net debt resulting from cash flows</b>	<b>(9,133)</b>
	<b>Other Non Cash changes:</b>	
695	Interest accrued at year end on Short Term Investments	437
(2,830)	Transfers to/from Long Term Investments	2,830
	Net Adjustments for differences between Effective Interest Rates and actual interest payable	851
181	Interest accrued at year end on loans & finance leases carried at nominal value	
(265)		(134)
<b>(2,219)</b>	<b>Change in net debt resulting from non cash items</b>	<b>3,984</b>
<b>(151,552)</b>	Net Debt at 01.04.09	<b>(178,456)</b>
<b>(178,456)</b>	Net Debt at 31.03.10	<b>(183,605)</b>

### d) Analysis of Changes in Cash and Liquid Resources during the year

	£000's 31.03.10	£000's 31.03.09	£000's Change in Year
Short Term Investments	40,662	21,900	(18,762)
Amounts relating to Council Tax and NNDR	6,149	2,200	(3,949)
Cash	176	174	(2)
Bank overdraft	(5,689)	(2,470)	3,219
Increase/(Decrease) in year	<b>41,298</b>	<b>21,804</b>	<b>(19,494)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## e) Government Grants

<u>2008/09</u> £000's		<u>2009/10</u> £000's
2,203	Benefits Administration	2,465
0	Housing Defect Act	0
326	NNDR Collection Grant	329
84,572	Non-domestic Rate Income Pool	79,846
22,451	General Government Grants	29,974
111,002	Dedicated Schools Grant	112,291
90,334	Housing Benefits	106,731
5,584	HRA Subsidy	4,108
<u>316,472</u>		<u>335,744</u>

## 40. Dedicated Schools Grants

The council's expenditure on schools is funded by grant provided by the Department for Children, Schools and Families (DCFS), 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. Overspends and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2009/10 are as follows:

<u>Details of the deployment of DSG receivable for 2008/09 are as follows:</u>			
	<u>Central</u> Expenditure £'000	<u>Individual</u> Schools Budget £'000	<u>Total</u> £'000
Final DSG for 2009/10			112,291
<b>Brought forward from 2008/09</b>			<b>136</b>
Carry forward to 2009/10 agreed in advance			0
<b>Agreed budgeted distribution in 2009/10</b>	<b>15,478</b>	<b>96,949</b>	<b>112,427</b>
Actual central expenditure	(15,613)		(15,613)
Actual ISB deployed to schools		(96,949)	(96,949)
Local authority contribution for 2009/10	272	0	272
<b>Carry forward to 2010/11</b>	<b>137</b>	<b>0</b>	<b>137</b>

## 41. Contributions to Other Local Authorities

Contributions paid to other local authorities are detailed in the table below:

<u>2008/09</u> £000's		<u>2009/10</u> £000's
40	Southern Seas Fisheries	42
435	Coroners Services	509
41	Flood Defence	42
<u>516</u>		<u>593</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 42. Long Term Debtors

Long Term Debtor balances have been restated to exclude Schools PFI Scheme Balances that are no longer required following an Accounting Policy change see Note 2.

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

### a) Mortgages

These are loans outstanding to borrowers either for the purchase of council dwellings, or for the purchase and improvement of private properties under part XIV of the Housing Act 1985. Loans are also made to Housing Associations for the construction and improvement of their properties.

### b) IT Assets transferred to Capita

A balance for Deferred Consideration (within Long Term Debtors) was established, in 07/08, with the Net Book Value of the assets (£3,247k). The deferred consideration (total cost including financing charges) is being written down to zero over the 10 year life of the contract with the debit entry being to the Income and Expenditure Account (£423k). This is then reversed out through the Statement of Movement on General Fund Balance. As the authority has effectively lent Capita the fair value of the assets, which Capita is repaying in instalments over the 10 year contract by a reduction in the contract payments, the notional interest related to the value is also included in Long Term Debtors (£140k). Therefore the net reduction in Long term debtors is £283k. More information relating to the contract with Capita is included in the **Accounting Policies (19)**.

### c) Other

The major proportion of this balance is for the Assisted Car Purchase scheme which allows loans to be advanced to members of staff to assist in the purchase of vehicles where the possession and use of a car is required as part of their job.

Some loans are interest free where the loan has been made to an employee who has not renewed a car lease option. Other loans are charged at 2% above base rate, which is set at the beginning of each financial year.

<u>31.03.09</u> £000's	<u>31.03.10</u> £000's
<b>Mortgages</b>	
105 Sale of Council Houses	71
<b>Other</b>	
4,915 PFI Schools	-
(4,915) PYA - PFI	-
2,721 IT Assets transferred to Capita	2,438
81 Other	134
<u>2,907</u>	<u>2,643</u>

## 43. Assets Transferred to Capita

As part of the Strategic Services Partnership contract with Capita the majority of the Council's IT assets have transferred in ownership to Capita. The benefit the Council receives from transferring these assets in the form of a lower contract charge is required to be recognised in the accounts. The value of the IT assets at the start of the contract was £3,247k. Using the PWLB 10 year rate, to estimate the total cost including financing charges of what Capita would have had to pay in cash rather than by reducing the contract payments, gives a figure of £4,237k. This value is amortised to the Income and Expenditure Account over the 10 year life of the contract to reflect the full cost of the contract (£423k).

## NOTES TO THE CORE FINANCIAL STATEMENTS

To reflect the fact that the Council has effectively lent Capita the value of the IT assets, the notional interest income on the balance of the Long Term debtor is recognised in the Income & Expenditure Account (£140k in 2009/10). This gives a net charge to the I&E Account of £283k. So that there is no impact on the Council Tax, this notional charge is then reversed out in the Statement of Movement on the General Fund Balance.

### 44. Stocks, Stores and Work in Progress

A summary of stocks, stores and work in progress is shown below. Work in progress is work undertaken on a job, which has not yet been completed or charged for. Work in progress in respect of other Council services is eliminated on consolidation of the accounts.

31.03.09 £000's		31.03.10 £000's
	General Fund	
100	Engineer's Stores	82
118	Woodmill shop	186
653	Central Stores	691
44	Building Contract Services	39
68	Catering	68
70	Gas Van	71
86	Libraries - Non Book	86
97	Other	111
<b>1,236</b>	<b>Total Stocks</b>	<b>1,334</b>
3	Work in Progress	6
<b>1,239</b>		<b>1,340</b>

### 45. Debtors and Creditors

The Debtor and Creditor balances represent the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2010.

Debtors and Creditors Comparative figures have been restated to incorporate the adjustments required in respect of Changes in Accounting Policies with regard to PFI Schemes/ IFRIC 12 Service Concessions and the Collection Fund See Note 2.

National Insurance and PAYE is the amount of the deductions from the Wages and Salaries of City Council staff, which are not paid over to the Inland Revenue by the 31 March 2010.

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2008/09</u> £ 000's	<u>Creditors</u>	<u>2009/10</u> £ 000's
	<u>Government</u>	
3,921	Department of Communities & Local Government	5,172
3,457	Department for Children Schools & Families (DCSF)	2,715
79	Department of Health	504
4,429	HM Revenue & Customs (PAYE & National Insurance)	4,302
525	South East England Development Agency (SEEDA)	525
882	Teachers Superannuation	893
440	Other Departments	530
<u>13,733</u>		<u>14,641</u>
	<u>Taxpayers</u>	
498	Council Tax / Business Rates (prepayments)	599
498		599
	<u>Public Sector Organisations</u>	
4,222	Hampshire County Council	2,230
2,047	Hampshire County Council (Local Government Superannuation)	4,113
1,578	Southampton University Hospitals	938
594	Other Local Authorities and Public Bodies	676
<u>8,441</u>		<u>7,957</u>
	<u>General Fund - Other Creditors</u>	
243	Building Control Competition A/C	280
377	Landfill Allowance Trading Scheme (LATS)	386
1,423	Finance Creditor (PFI and Hampshire Waste Contract)	1,499
1,364	CAPITA	1,848
<u>33,108</u>	Sundry Creditors	<u>42,271</u>
<u>36,515</u>		<u>46,284</u>
	<u>Housing Revenue Account - Other Creditors</u>	
2,044	Sundry Creditors	1,959
2,044		1,959
<u>61,231</u>	<b>Total Creditors</b>	<u>71,440</u>

<u>2008/09</u> £ 000's	<u>Debtors</u>	<u>2009/10</u> £ 000's
	<u>Government</u>	
3,418	Department of Communities & Local Government	6,815
1,230	Department for Children Schools & Families (DCSF)	0
3,088	Department of Work and Pensions	3,938
1,830	HM Revenue & Customs (VAT)	7,188
231	Other Departments	290
<u>9,797</u>		<u>18,231</u>
	<u>Taxpayers</u>	
6,090	Council Tax	5,918
6,090		5,918
	<u>Public Sector Organisations</u>	
1,497	Hampshire County Council	1,181
355	Other Local Authorities and Public Bodies	602
<u>1,852</u>		<u>1,783</u>
	<u>General Fund - Other Debtors</u>	
5,109	Housing Benefit	5,067
223	CAPITA	0
385	Leasing	24
377	Landfill Allowance Trading Scheme (LATS)	386
<u>18,124</u>	Sundry Debtors	<u>18,019</u>
<u>24,218</u>		<u>23,496</u>
	<u>LESS Provision for Bad Debts</u>	
(5,151)	Taxpayers	(5,763)
(6,685)	Other	(5,203)
<u>(11,836)</u>		<u>(10,966)</u>
	<u>Housing Revenue Account - Other Debtors</u>	
4,946	Sundry Debtors	5,794
(1,875)	LESS Provision for Bad Debts	(1,841)
<u>3,071</u>		<u>3,953</u>
<u>33,192</u>	<b>Total Debtors</b>	<u>42,415</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 46. Short Term Investments

The balance shown comprises investments that are of less than one year and includes accrued interest due within one year for both long and short term investments.

<u>31.03.09</u>				<u>31.03.10</u>		
Principal	<u>Accrued Interest</u>	Total	Short - Term Investments	Principal	<u>Accrued Interest</u>	Total
£000's	£000's	£000's		£000's	£000's	£000's
14,400	690	15,090	Temporary Money Market Investments	29,580	263	29,843
6,635	5	6,640	Money Market Fund Accounts	10,645	6	10,651
0	170	170	Long term investments - interest due within 1 year	0	168	168
<b>21,035</b>	<b>865</b>	<b>21,900</b>		<b>40,225</b>	<b>437</b>	<b>40,662</b>

## 47. Cash in Hand and Bank Overdraft

The balance shown comprises:

	<u>31.03.09</u>	<u>31.03.10</u>
	£000's	£000's
Bank Accounts	2,470	5,689
Petty Cash	(174)	(176)
<b>Total</b>	<b>2,296</b>	<b>5,513</b>

Although the balance shown suggests that the bank is overdrawn by over £5,689k this reflects end of year accounting entries and was not the actual cash position. The Council's balance in the Bank at the 31 March 2010 was actually overdrawn by £188k.

## 48. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts.

<u>31.03.09</u>		<u>31.03.10</u>
£000's		£000's
20,820	Balance Brought Forward	19,987
0	Principal raised in year	0
(833)	Principal written down	(799)
<b>19,987</b>		<b>19,188</b>



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 49. Deferred Capital Balances

This balance consist of the sale of Council Houses.

	£000's			
	<u>01.04.09</u>	<u>Receipts in Year</u>	<u>Payments in Year</u>	<u>31.03.10</u>
Sale of Council Houses	92	2,019	(2,053)	58
	<b>92</b>	<b>2,019</b>	<b>(2,053)</b>	<b>58</b>

## 50. Government Grants & Contributions Deferred

The balance represents grants, which have been applied in previous years to finance capital expenditure and are being written down over the period of depreciation for the individual assets.

2008/09		2009/10
£000's		£000's
35,662	Balance Brought Forward	43,535
11,495	Applied in Year	13,620
(3,622)	Credited to I & E Account	(1,727)
<b>43,535</b>	<b>Balance Carried forward</b>	<b>55,428</b>

## 51. Capital Grants and Contributions Unapplied

These are capital grants and contributions that are available to finance new capital expenditure but have yet to be applied for that purpose.

2008/09		2009/10
£000's		£000's
19,259	Balance Brought Forward	21,006
35,113	Amounts Received in Year	29,107
(32,466)	Amounts Applied to Finance Capital in year	(23,100)
(900)	Transferred to Earmarked RR	-
<b>21,006</b>	<b>Balance Carried forward</b>	<b>27,013</b>

Capital Grants and Contributions Unapplied incorrectly included £900k in respect of Earmarked Revenue Reserves relating to Southampton City Training – comparatives restated.

## 52. Area Based Grant (ABG)

From the 2009/10 financial year, Local Area Agreement (LAA) Grant was replaced by Area Based Grant (ABG). ABG is a non-ringfenced general grant, no conditions on use is imposed as part of the grant determination ensuring full local control over how funding can be used.

This means that, unlike LAA Grant, its use is not restricted to supporting the achievement of LAA targets. Also, unlike LAA Grant, ABG is paid directly to the authority that benefits from the grant, rather than being paid to the upper-tier authority for the area in the capacity of 'accountable body' for onward distribution. ABG is a

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

general grant, which is included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution.

The total amount of ABG received by the Council in 2009/10 was £11,545k revenue funding. All of this amount was used by the council to fund its own services.

## HOUSING REVENUE ACCOUNT

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

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

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

### Income and Expenditure Account

<u>2008/09</u>		<u>Notes</u>	<u>2009/10</u>	
£000's	<u>Income</u>		£000's	£000's
(54,783)	Dwellings Rent	1	(56,166)	
(1,434)	Non-Dwelling Rents		(1,359)	
(4,098)	Tenant Charges for Services & Facilities		(4,693)	
(1,269)	Contributions Towards Expenditure		172	
0	Housing Revenue Account Subsidy Receivable	8	0	
0	Reduced Provision for Bad or Doubtful Debts		0	
<b>(61,584)</b>	<b>Total Income</b>			<b>(62,046)</b>
	<b>Expenditure</b>			
14,464	Repairs and Maintenance		14,794	
14,882	Supervision and Management		14,312	
3,923	Rents, Rates, Taxes and Other Charges		4,088	
5,608	Negative Housing Revenue Account Subsidy Payable	8	4,108	
0	Transfer of Bad Debt Provision to General Fund		0	
497	Increased Provision for Bad or Doubtful Debt		403	
155,723	Depreciation and Impairment of Fixed Assets	7	16,549	
47	Debt Management Costs		46	
<b>195,144</b>	<b>Total Expenditure</b>			<b>54,300</b>
<b>133,560</b>	<b>Net Cost of Services</b>			<b>(7,746)</b>
348	HRA services share of Corporate & Democratic Core			353
	HRA share of other amounts included in the whole authority Net Cost of Service but not allocated to specific services			
<b>133,908</b>	<b>Net Cost of HRA Services</b>			<b>(7,393)</b>
0	(Gain) or loss on sale of HRA fixed assets			0
3,857	Interest payable and similar charges			1,419
(63)	Capital Receipts not matched by Disposal of Assets			(71)
(214)	Capital Grants & Contributions not transferred to Government Grants Deferred			(2,048)
(684)	Interest and Investment Income	6		(82)
1,691	Pensions Interest Cost & Expected Returns on Pensions Assets	12		3,126
0	PYA (Change of Accounting Policy)			
<b>138,495</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>(5,049)</b>

# HOUSING REVENUE ACCOUNT

## Statement of Movement on the HRA Balance

2008/09 £000's		2009/10 £000's
138,495	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(5,049)
<u>(137,775)</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	<u>5,848</u>
720	(Increase) or decrease in the Housing Revenue Account Balance	799
(3,108)	Housing Revenue Account surplus brought forward	(2,388)
<u><u>(2,388)</u></u>	<b>Housing Revenue Account surplus carried forward</b>	<u><u>(1,589)</u></u>

## Note to Statement of Movement on the HRA Balance

£000's		£000's	£000's
	<b>Items Included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
63	Capital Receipts not matched by Disposal of Assets	71	
214	Capital Grants & Contributions not transferred to Government Grants Deferred	2,048	
74	Removal of HRA Effective Interest Rate Calculation	386	
(12)	Amortisation of Item 8 Discount	(83)	
(143,223)	Impairment of Fixed Assets	(1,419)	
0	Gain or loss on sale of HRA fixed assets		
(3,837)	Net Charges made for retirement benefits in accordance with FRS 17	(5,367)	
-	PYA (Change in Accounting Policy)		
<b>(146,721)</b>			<b>(4,364)</b>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
(293)	Transfer to/(from) Major Repairs Reserve	(68)	
3,137	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	3,123	
11,215	Capital Expenditure funded by the HRA	10,989	
<u>(5,113)</u>	Transfer to/ (from) Direct Revenue Financing Reserve	<u>(3,832)</u>	
<b>8,946</b>			<b>10,212</b>
<u><u>(137,775)</u></u>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>		<u><u>5,848</u></u>

# HOUSING REVENUE ACCOUNT

## 1. Council House Rents

At 31 March 2010, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 4.89% (31 March 2009 - 4.59%). The total arrears were £2,555k (31 March 2009 - £2,698k). Rents written off during the year amounted to £460k (last year £455k).

The main sources of rent income after allowing for voids of £847k (last year £624k) are set out in the following table:

2008/09 £000's		2009/10 £000's
23,300	Rent met by Tenants	22,610
31,483	Rent Rebates	33,556
<b>54,783</b>		<b>56,166</b>

## 2. Housing Stock

During the year 1.40% (1.25% for 2008/09) of lettable properties were vacant. Since 2003/04 service charges and supporting people charges have been charged separately from rents. The average rent for 2009/10 was £63.57 a week (£61.67 for 2008/09). The stock at the year-end was made up as follows:

2008/09		2009/10
17,229	Stock at 1st April	17,199
(31)	Less: Sales	(28)
1	Other/Demolitions	(107)
<b>17,199</b>	Stock at 31st March	<b>17,064</b>
<u>Consisting of :</u>		
5,474	Houses	5,450
11,709	Flats	11,598
16	Bungalows	16
<b>17,199</b>		<b>17,064</b>

## 3. Major Repairs Reserve

<u>Total</u> <u>2008/09</u> £000's		<u>Land</u> <u>2009/10</u> £000's	<u>Dwellings</u> <u>2009/10</u> £000's	<u>Other</u> <u>2009/10</u> £000's	<u>Total</u> <u>2009/10</u> £000's
0	Opening Balance	0	0	0	0
(12,499)	Receipts in Year	0	(15,061)	(68)	(15,129)
12,499	Payments in Year	0	15,061	68	15,129
<b>0</b>	<b>Closing Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# HOUSING REVENUE ACCOUNT

## 4. Capital Expenditure

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

<u>2008/09</u>		<u>Capital Spending</u>		<u>2009/10</u>	
£000's				£000's	
25,440	Housing Stock			29,589	
11	Other Property			6	
<b>25,451</b>	<b>Total Capital Expenditure</b>			<b>29,595</b>	
<b>Capital Expenditure Source of Finance</b>					
£000's				£000's	
320	Capital Receipts			0	
1,496	Supported Borrowing			1,496	
0	Unsupported Borrowing			0	
5	Grants			1,878	
12,206	Transfer from Major Repairs Reserves			15,061	
209	Contributions			171	
11,215	Direct Revenue Funding			10,989	
<b>25,451</b>	<b>Total Financing</b>			<b>29,595</b>	

## 5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts and how they have been utilised in the year. In 2005/06 the government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the government then distributes to local authorities and housing associations on the basis of need. Generally, authorities pay the government 75% of the proceeds from the sale of Council Houses and 50% from the sale of other HRA assets. However, authorities are able to keep all the proceeds from certain HRA assets where they are used to fund affordable housing or regeneration schemes.

<u>2008/09</u>		<u>2009/10</u>	
£000's		£000's	
70	Opening Balance at 1st April		161
Receipts in Year:-			
Sale of Assets			
2,191	Council Housing	2,285	
37	Land, Buildings & Equipment	389	
44	Repayment of Advances	34	
<b>2,342</b>		<b>2,869</b>	
(62)	Allowable deduction arising from Disposal	(71)	
2,280		2,798	
Application in Year:-			
(253)	Inter Portfolio Transfer	(599)	
(320)	Financing of new HRA Capital Expenditure	0	
(1,585)	Pooled Receipts	(1,704)	
39	Other Adjustments	0	
<b>161</b>	<b>Closing Balance at 31st March</b>	<b>495</b>	

## HOUSING REVENUE ACCOUNT

### 6. Interest Received

During 2009/10 the Housing Revenue Account received interest amounting to £82k, (2008/09 £684k). The main sources of this income are detailed in the table below.

<u>2008/09</u> £000's		<u>2009/10</u> £000's
7	Council House Mortgages	3
677	Interest on Other Funds & Balances	79
<u>684</u>		<u>82</u>

### 7. Fixed Assets

The DETR Guidance of Stock Valuation requires that the housing stock be valued as Existing Use Value – Social Housing (EUV-SH), and the guidance prescribes the regional adjustment factors that valuers are expected to use to convert a vacant possession beacon valuation to an EUV-SH valuation. The basis of valuation is explained in more detail in **Accounting Policies (10)**.

The vacant possession value of Council Housing within the authority's HRA as at 1st April 2009 was £1.206 million, which is the Authority'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 2010.

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

# HOUSING REVENUE ACCOUNT

<b>Movements in Fixed Assets During 2009/10</b>					
	Operational Assets			Non-Operational Assets	Total
	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Investment £000	
<b>Cost or Valuation</b>					
At 1 April 2009	<b>663,310</b>	<b>4,159</b>	<b>648</b>	<b>8,630</b>	<b>676,747</b>
Additions	29,595				29,595
Disposals	(2,018)				(2,018)
Reclassifications	503			1,142	1,645
Revaluations	21,278	1,056		0	22,334
Impairments				(1,419)	(1,419)
<b>At 31 March 2010</b>	<b>712,668</b>	<b>5,215</b>	<b>648</b>	<b>8,353</b>	<b>726,884</b>
<b>Depreciation and Impairment</b>					
At 1 April 2009	0	0	(171)	0	(171)
Depreciation charge in Year	(15,062)		(68)		(15,130)
Disposals					0
Reclassifications					0
Revaluations					0
Impairments					0
<b>At 31st March 2010</b>	<b>(15,062)</b>	<b>0</b>	<b>(239)</b>	<b>0</b>	<b>(15,301)</b>
<b>Balance Sheet amount at 31st March 2010</b>	<b>697,606</b>	<b>5,215</b>	<b>409</b>	<b>8,353</b>	<b>711,583</b>
<b>Balance Sheet amount at 31st March 2009</b>	<b>663,310</b>	<b>4,159</b>	<b>477</b>	<b>8,630</b>	<b>676,576</b>
<b>Nature of Asset Holding</b>					
Owned	697,606	5,215	409	8,353	711,583
Finance Lease					0
PFI					0
	<b>697,606</b>	<b>5,215</b>	<b>409</b>	<b>8,353</b>	<b>711,583</b>

## 8. General Housing Subsidy

The Government pays a General Housing Subsidy to the Housing Revenue Account. This is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. With effect from the 1 April 2004 Rent Rebate Subsidy was removed from the HRA and is now charged to the General Fund. The HRA therefore now only receives General Housing Subsidy.

The table below shows a breakdown of the amount of HRA subsidy payable to the Council for 2009/10 in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of HRA Subsidy for 2009/10.



## HOUSING REVENUE ACCOUNT

<u>2008/09</u> £000's		<u>2009/10</u> £000's
0	Housing Defects Act	0
	<b>Housing Subsidy Entitlement in Year</b>	
31,650	Management and Maintenance	33,387
12,206	Major Repairs Allowance	15,061
5,221	Charges for Capital	2,343
0	Admissible Allowance	0
0	Anti Social Behaviour Allowance	0
0	Caps & Limits Adjustment	1,168
(10)	Interest on Receipts	(7)
<u>(54,651)</u>	Guideline Rent Income	<u>(56,059)</u>
(5,584)		(4,107)
<u>(24)</u>	Previous Years Subsidy Adjustment	<u>(1)</u>
<u><b>(5,608)</b></u>	<b>Total Housing Subsidy</b>	<u><b>(4,108)</b></u>

### 9. Provision for Bad Debts

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

<u>2008/09</u> £000's		<u>2009/10</u> £000's
374	MRC Bad Debt Provision	456
<u>1,501</u>	Rents Bad Debt Provision	<u>1,385</u>
<u><b>1,875</b></u>		<u><b>1,841</b></u>

### 10. Minimum Revenue Provision (MRP)

The introduction of the 2003 Local Government Act abolished the statutory requirement for the HRA to make a revenue contribution towards the repayment of debt. The impact of this will be higher levels of future outstanding debt.

### 11. Direct Revenue Financing Reserve

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

<u>2008/09</u> £000's		<u>2009/10</u> £000's
	<b>Direct Revenue Financing Reserve</b>	
(15,226)	Direct Revenue Financing Balance Brought Forward	(10,114)
(6,103)	Contribution From Revenue In Year	(7,157)
<u>11,215</u>	Applied for Capital	<u>10,989</u>
<u><b>(10,114)</b></u>	<b>Balance Carried Forward</b>	<u><b>(6,282)</b></u>

## HOUSING REVENUE ACCOUNT

### 12. Pensions

Under FRS17 the Council has the option to charge part of the pension costs to the HRA, it was decided to implement this option from the 1 April 2005. The table below shows the total HRA share of contributions to and from the Pension Reserve and breaks the figure down to show the type of contribution to or from the reserve.

<b>Local Government Pension Scheme</b>				
	<u>2008/09</u>		<u>2009/10</u>	
	£000's	£000's	£000's	£000's
<b>Income and Expenditure Account</b>				
<i>Net Cost of Service</i>				
Current service costs		2,075		2,194
Past service costs		71		47
<i>Net Operating Expenditure</i>				
Interest Cost	5,244		5,567	
Expected return on assets in the scheme	<u>(3,553)</u>	1,691	<u>(2,441)</u>	3,126
<b><u>Amounts to be met from HRA</u></b>				
Movement on pensions reserve		(700)		(2,244)
<b><u>Actual amount charged against HRA</u></b>				
Employer's contributions payable to scheme		<u><u>3,137</u></u>		<u><u>3,123</u></u>

# THE COLLECTION FUND

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

<b>Income and Expenditure for the Year Ended 31 March 2010</b>			
<b>2008/09</b> <b>£000s</b>		<b>Notes</b>	<b>2009/10</b> <b>£000s</b>
	<b>Income</b>		
(77,276)	Council Tax	2	(77,255)
	Transfers from the General Fund		
(15,393)	- Council Tax Benefits	3	(17,436)
0	- Local Council Tax Discount		(879)
0	- Transitional Relief		0
<b>(92,669)</b>			<b>(95,570)</b>
<b>(89,351)</b>	Income Collectable from Business Ratepayers	1	<b>(92,358)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus		
0	- Southampton City Council		1,537
0	- Hampshire Police Authority		177
0	- Hampshire Fire & Rescue Service		76
<b>(182,020)</b>	<b>Total Income</b>		<b>(186,138)</b>
	<b>Expenditure</b>		
	Precepts		
76,823	- Southampton City Council Precept	4	79,383
8,866	- Hampshire Police Authority Precept	4	9,331
3,809	- Hampshire Fire & Rescue Service Precept	4	3,960
<b>89,498</b>			<b>92,674</b>
	Business Rates		
87,427	- Payment to National Pool		90,844
282	- Interest on Overpayments		195
326	- Costs of Collection	5	329
<b>88,035</b>			<b>91,368</b>
	Bad and Doubtful Debts		
	Council Tax		
941	- Write Offs	6	1,126
493	- Provisions	6	62
<b>1,434</b>			<b>1,188</b>
	Business Rates		
659	- Write Offs	6	636
657	- Provisions	6	354
<b>1,316</b>			<b>990</b>
<b>180,283</b>	<b>Total Expenditure</b>		<b>186,220</b>
<b>(1,737)</b>	<b>(Surplus) / Deficit For the Year</b>		<b>82</b>
(539)	(Surplus) / Deficit Brought Forward		(2,276)
<b>(2,276)</b>	<b>Total (Surplus) / Deficit</b>		<b>(2,194)</b>

# THE COLLECTION FUND

## 1. Non-Domestic Rates

Southampton City Council collects national non-domestic rates (NNDR) for its area on behalf of central government. These rates are based on rateable values for properties set by the Valuation Office Agency, part of HM Revenues and Customs, which are multiplied by a uniform business rate set by central government. The uniform business rate was set at 48.5p in the pound for 2009/10 (46.2p for 2008/09). The small business rate relief multiplier for 2009/10 is 48.1p in the pound for 2009/10 (45.8p for 2008/09). The rateable value at 31 March 2010 was £221,766k (£217,664k at 31 March 2008). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool managed by central government. The government redistributes the sums paid into the pool back to local authorities in proportion to population. Southampton's share of the pool for 2009/10, paid directly to the Income and Expenditure Account, amounted to £79,846k.

## 2. Council Tax Base

	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Dis	57	5/9	32
Band A	23,400	6/9	15,600
Band B	27,369	7/9	21,287
Band C	18,537	8/9	16,477
Band D	7,881	9/9	7,881
Band E	2,602	11/9	3,180
Band F	1,222	13/9	1,765
Band G	359	15/9	599
Band H	(12)	18/9	(24)
	<u>81,415</u>		<u>66,797</u>

Taking the total Band D equivalents of 66,797 and multiplying this by the standard council tax of £1,411.38 gives a total estimated income from taxpayers of £94,276k. The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which for 2009/10 was 98.3%, giving a net Council Tax Base of 65,661. Multiplying this by the standard council tax of £1,411.38, gives the total precepts on the Collection Fund of £92,674k.

## 3. Benefits

Some households are entitled to allowances to the standard rate of Tax, which includes Council Tax Benefits. The cost of benefits granted is met in full by Government subsidy.

## 4. Precepts

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

## 5. Allowance for NNDR Collection

A contribution to the General Fund is made to meet the costs of collection £329k.

## THE COLLECTION FUND

### 6. Provision for Bad Debts

The contribution to the Council Tax Bad Debt provision is £1,188k in 2009/10. At the 31 March 2010 the provision totalled £6,075k against a liability of £9,118k.

The contribution to the NNDR Bad Debt provision is £990k in 2009/10. At the 31 March 2010 the provision totalled £1,321k against a liability of £4,279k.

### 7. Collection Fund Balance

The year end balance on the Collection Fund of £2,194k can be apportioned, on the basis of the value of precepts, between that attributable to Southampton City Council and that attributable to the other preceptors. The amount attributable to Southampton City Council is £1,879k and shown as a revenue balance in the Balance Sheet. The remaining £314k attributable to the other preceptors is included within Creditors in the Balance Sheet.

The movement on the Collection Fund balance between 31 March 2008 and 31 March 2010 is £70k. This is shown in the Statement of Total Recognised Gains and Losses.

## TRUST AND OTHER FUNDS

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

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

Other Funds are:

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

**Criminal Injuries Compensation Awards** – Funds are held on behalf of children under 18 who fall under the Councils supervision.

The Other Funds are analysed as follows:

	<u>2008/09</u> £000's	<u>Receipts</u> £000's	<u>Payments</u> £000's 's	<u>2009/10</u> £000's
<u>Other Funds</u>				
Wessex Slaughterhouse Board	(103)	0	3	(100)
Criminal Injuries Compensation Board	(22)	(3)	17	(8)
Total	<u>(125)</u>	<u>(3)</u>	<u>20</u>	<u>(108)</u>

The Trust Funds are:

**Chipperfield Trust** – Purchase works of art.

**L. C. Smith Bequests** – Help maintain the Merchants Navy Memorial in Holyrood Church

**Miss Orris Bequest** – Purchase of pictures for the Art Gallery

**Aldridge Bequest** – To facilitate the access of disadvantaged pupils to personal enrichment experiences

**Minor Trust Funds** which consist of several funds of small value as follows:

**Ida Bany Bequest** – Purchase books about America

**Thomas Morgan Bequest** – Finance a local essay competition

**Ida Turnbull Bequest** – Purchase of large print books made available for public use.

**George Knee Fund** – Provision of special annual prizes for Bitterne Park School.

**De Gee** – Annual treat for children of the former Hollbrook Children's home.

**Dora Linton** - Helps maintain the Merchants Navy Memorial in Holyrood Church.

**Cemeteries Legacy** – Helps maintain Cemeteries.

# TRUST AND OTHER FUNDS

Statement of Financial Activities for the year ending 31 March 2010					
2008/09			2009/10		
Net £000's	Trust Funds Resources expended and (incoming resources)	Notes	Expenditure £000's	Income £000's	Net £000's
		4/5/7			
(4)	Chipperfield Trust		9	(3)	6
3	LC Smith Bequest		4	0	4
(2)	Miss Orris Bequest		0	(1)	(1)
(5)	Aldridge Bequest		15	(11)	4
0	Minor Trust Funds		1	0	1
	<b>Total net incoming resources before other recognised gains and losses</b>		<b>29</b>	<b>(15)</b>	<b>14</b>
	<b>Unrealised (gains)/losses on investment assets</b>	6			
(2)	Chipperfield Trust		6	0	6
25	Aldridge Bequest		0	(21)	(21)
0	Minor Trust Funds		0	0	0
<b>23</b>	<b>Total Unrealised (gains)/losses on investment assets</b>		<b>6</b>	<b>(21)</b>	<b>(15)</b>
	<b>Net movement in funds</b>				
(6)	Chipperfield Trust				12
3	LC Smith Bequest				4
(2)	Miss Orris Bequest				(1)
20	Aldridge Bequest				(17)
0	Minor Trust Funds				1
<b>15</b>	<b>Total net movement in funds</b>				<b>(1)</b>
	<b>Reconciliation of funds</b>			<b>Net movement in funds</b>	<b>Total funds Carried Forward</b>
	<b>Total Funds brought forward</b>				
(150)	Chipperfield Trust			12	(138)
(37)	LC Smith Bequest			4	(33)
(147)	Miss Orris Bequest			(1)	(148)
(341)	Aldridge Bequest			(17)	(358)
(40)	Minor Trust Funds			1	(39)
<b>(715)</b>	<b>Total Funds carried forward</b>			<b>(1)</b>	<b>(716)</b>

# TRUST AND OTHER FUNDS

Balance Sheet as at 31 March 2010		
2008/09 £000's		2009/10 £000's
	<b>Fixed Assets</b>	
	<b>Investments</b>	
70	Chipperfield Trust	64
167	Aldridge Bequest	188
4	Minor Trust Funds	4
<u>241</u>	<b>Total Fixed Assets</b>	<u>256</u>
	<b>Currents Assets</b>	
	<b>Internal Investments Accounts</b>	
78	Chipperfield Trust	72
37	LC Smith Bequest	33
147	Miss Orris Bequest	148
172	Aldridge Bequest	170
36	Minor Trust Funds	35
<u>470</u>	<b>Total Investment Accounts</b>	<u>458</u>
	<b>Debtors</b>	
2	Chipperfield Trust	2
2	Aldridge Bequest	0
<u>4</u>	<b>Total Debtors</b>	<u>2</u>
<u>715</u>	<b>Net Current Assets</b>	<u>716</u>
<u>715</u>	<b>Net assets</b>	<u>716</u>
	<b>Trust Funds</b>	
148	Chipperfield Trust	146
2	Chipperfield Trust Unrealised Gains/(Losses) Account	(8)
37	LC Smith Bequest	33
147	Miss Orris Bequest	148
282	Aldridge Bequest	278
59	Aldridge Bequest Unrealised Gains/(Losses) Account	80
41	Minor Trust Funds	40
(1)	Minor Trust Funds Unrealised Gains/(Losses) Account	(1)
<u>715</u>		<u>716</u>



# TRUST AND OTHER FUNDS ACCOUNTING POLICIES

## 1. Basis of accounting

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

## 2. Change in the basis of accounting

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

## 3. Changes to previous accounts

There have been no changes.

## 4. Incoming Resources

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

## 5. Investment Income

This is included in the accounts when receivable.

## 6. Investment gains and losses

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

## 7. Analysis of incoming resources

2008/09		<u>Analysis of Incoming Resources</u>				2009/10	Total Incoming Resources £ 000's
		Sales £ 000's	Other £ 000's	Dividends - Unit Trusts and Gilts £ 000's	Investment Interest * £ 000's		
(8)	Chipperfield Trust	0	0	(3)	0	(3)	
(1)	LC Smith Bequest	0	0	0	0	0	
(6)	Miss Orris Bequest	0	0	0	(1)	(1)	
(16)	Aldridge Bequest	0	0	(10)	(1)	(11)	
(2)	Minor Trust Funds	0	0	0	0	0	
<b>(33)</b>	<b>Total</b>	<b>0</b>	<b>0</b>	<b>(13)</b>	<b>(2)</b>	<b>(15)</b>	

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

## **TRUST AND OTHER FUNDS ACCOUNTING POLICIES**

### **8. Other expenditure disclosures**

Expenditure for the year was nil for the following items

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

# GLOSSARY

## 1. Accruals

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

## 2. Best Value

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

## 3. Budget

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

## 4. Capital Asset Charges

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

## 5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to 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 local authority intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

## 8. Consistency

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

## 9. Contingency

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

## 10. Council Tax

A local tax levied by Local Authorities on its citizens.

## 11. Creditor

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

# GLOSSARY

## 12. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not been 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. Fair Value

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

## 15. 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.

## 16. 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.

## 17. Financial Instrument

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

## 18. 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.

## 19. 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.

## 20. Fixed Assets

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

## 21. General Fund

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

## 22. Going Concern

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

## 23. 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 authority.

## 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.

## 27. Long Term Investments

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

## 28. Long-Term Contracts

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

## 29. Materiality

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

## 30. National Non Domestic Rate

Business rate levied on companies, firms etc, collected by Local Authorities and paid to a Central Government 'Pool'.

## 31. Net Book Value

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

## **32. Net Current Replacement Cost**

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

## **33. Net Expenditure**

Total expenditure for a service less directly related income.

## **34. 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.

## **35. Non-Operational Assets**

Fixed assets held by a local authority 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.

## **36. Operating Leases**

A lease other than a finance lease.

## **37. Operational Assets**

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

## **38. 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 is signed by the responsible financial officer.

## **39. Revenue Expenditure Funded from Capital under Statute**

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.

## **40. Revenue Expenditure/Income**

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

## **41. Statement of Standard Accounting Practice (SSAP)**

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

# GLOSSARY

## 42. Stocks

Comprise the following categories:

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

## 43. Useful Life

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