

## **Governance Committee**

# **DOCUMENTS FOR THE MEMBERS ROOM**

Monday, 2nd October, 2023  
at 5.00 pm

MEMBERS ROOM DOCUMENTS ATTACHED TO THE  
LISTED REPORTS

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# MEMBERS ROOM DOCUMENTS

## 5 STATEMENT OF ACCOUNTS 2021/22 (Pages 1 - 138)

Friday, 22 September  
2023

DIRECTOR, LEGAL, GOVERNANCE AND HR

# Southampton City Council **STATEMENT OF ACCOUNTS**

2021/22





# STATEMENT OF ACCOUNTS

	<b><u>CONTENTS</u></b>	<b><u>Page</u></b>
<b>1</b>	<b>Narrative Statement</b>	3
<b>2</b>	<b>Statement of Responsibilities</b>	25
	Expenditure and Funding Analysis	26
<b>3</b>	<b>The Financial Statements</b>	
	Comprehensive Income and Expenditure Statement	27
	Movement in Reserves Statement	28
	Balance Sheet	29
	Cash Flow Statement	30
<b>4</b>	<b>Notes to the Core Financial Statements</b>	31
<b>5</b>	<b>Other Accounting Statements and Associated Notes</b>	
	Housing Revenue Account	110
	Collection Fund	115
<b>6</b>	<b>Glossary</b>	118
<b>7</b>	<b>Annual Governance Statement</b>	122
<b>8</b>	<b>Auditor's Report</b>	137

## NARRATIVE STATEMENT

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

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2021 to 31 March 2022. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year.

At the February 2021 Council meeting a robust budget for 2021/22 was set, as well as setting out Medium Term Financial Forecast estimates for the following financial years up to 2024/25.

Maintaining services during the pandemic and allocating additional resources in key areas during 2021/22 were important aspects of the budget. Management of risk and promoting financial resilience was a key consideration behind the budget strategy.

My priority during 2021/22 has therefore been to ensure that the Finance Service provided efficient and effective support to the Council in its continuing efforts to combat the effects of the Covid-19 pandemic, including supporting Southampton residents and businesses suffering from the associated economic impact, whilst still continuing to support the delivery of members' vision and deliver the Council's priorities agreed by councillors.

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

- Administering a variety of funds from Government provided in support of local businesses to assist in coping during the ongoing challenges arising from the pandemic including lockdowns. A total of £44.0M of support to local businesses, primarily via the following:
  - Restart scheme (£10.9M) intended to help businesses that are predominately reliant on delivering in-person services to the general public;
  - Business rates reliefs (£23.3M) for the retail, hospitality, leisure and nursery sectors;
  - The Additional Restrictions Grant (£7.9M) which targeted support to help medium and smaller sized business overcome the impact of the pandemic; and
  - The Omicron Hospitality and Leisure Grant (£1.4M) which provided support to hospitality, leisure and accommodation businesses, in recognition that the rise of the Omicron variant meant that some businesses were likely to struggle.
- Distributed £0.7M of self isolation payments providing financial support to people who had been told to self-isolate to carry out their essential tasks.
- Managed the funds received on behalf of the Contain Outbreak Management Funds (COMF) received from Government which were used in a variety of ways to limit the spreading of Covid-19 throughout the City. A total of £4.8M was applied during 2021/22, with a balance of £1.9M carried into 2022/23 to fund further measures.
- Tracked the financial impact of the pandemic on the council in order to submit monthly returns to Government highlighting the financial cost.
- Prepared and submitted a claim to Government under its support scheme for councils covering lost revenue from sales fees, charges income for the first quarter of the year, when much lower income than budgeted for. Under this scheme, the council was able to recover £1.2M from Government to partially compensate for its loss of income.
- Managing the funds from Government required to support the local test and trace operation, with £0.8M being used to support these costs.

## NARRATIVE STATEMENT

- Managing approx. £0.2M worth of personal protective equipment (PPE) for use by council staff and procuring this PPE at speed to support frontline services.
- Responded sympathetically and helpfully for all those in genuine need and who were unable to pay sums owed to the Council, recognising the financial challenges arising from the current crisis and supporting people to effectively manage their debts to the council.
- Managed £0.8M of funds received to support local services for refugees from Afghanistan to help them access local services including schools and accommodation.
- Worked closely with strategic suppliers to maintain services to our residents whilst operating consistently with the Coronavirus legislation and non-statutory guidance.
- Enabled leisure facilities to re-open through payments to cover loss of income and the associated use of funds arising from a successful National Leisure Recovery Fund bid of c£0.6M.
- Took the Municipal Golf Course under in-house management from 1 April 2021, where previously it was operated under contract. It re-opened from 30 April 2021 onwards.

More generally, the Council ensured that all of our emergency response services including Housing Operations, Street Lighting and Highways continued to operate during 2021/22 and the ongoing pandemic situation to ensure our customers, staff and the general public were kept safe and the Council's assets were safeguarded.

More detail on the Council's on-going response to the pandemic crisis is included in the narrative below.

The financial information below shows a sum of £10.9M being underspent for the 2021/22 financial year which has been taken to reserves and will help meet future council priorities and managing future risks.

I would like to express my sincere and genuine thanks for all staff in my Finance team who have made every effort to play their part in the Council's continuing efforts to support our communities during the difficult times of the on-going pandemic during 2021/22, with much increased demand for our services plus the difficulties presented by very different and challenging ways of working forced on us by the pandemic.

2021/22 was year three of the Chartered Institute of Public Finance and Accountancy (CIPFA) financial resilience index for local authorities. The index can be used as a tool to compare against other groupings of authorities but is only a starting point for analysis and in itself should not be relied on for conclusions. Some key points from the index were:

- Whilst the Council was considered to be at the lower end of the risk spectrum for the level of reserves in comparison to both unitaries and its 'nearest neighbours' comparator authorities, it was towards the 'higher risk' end of the spectrum for its change in reserves, reflecting reserves have needed to be drawn down to support the budget.
- On the relative proportion spent in Social Care – which is led by demand and statutory requirements to meet client needs – Southampton comes out at the very highest end of risk. A key part of budget planning has been to recognise the financial stress faced by the authority with these services and ensure investment is made to address the pressures. In Children's Services the investment has been in the context of the Destination 2022 programme that seeks to deliver savings through improved management of demand and earlier intervention. Future budget planning will need to take account of this risk and also monitor progress of the work on demand management the council has been engaged on and how it may mitigate this risk.
- The Council scored towards the high end of risk for its reliance on fees and charges income as a percentage of service spending. This means the council is more vulnerable than most authorities to fluctuations in this income stream. This area will require careful monitoring, as any long term trends emerging from the pandemic may impact on fees and charges – for example on parking income.
- For the Housing Revenue Account (HRA), the council was shown as being towards the higher end of risk. This was on the basis of comparing reserves with that held as at 31/03/2017, (a 33% reduction).

## NARRATIVE STATEMENT

The HRA reserve policy is to hold £2M and given no change recently to this balance and forward projections show this balance being maintained, it is not considered a major risk.

As well as giving the highest priority to the on-going response to the pandemic, Finance staff have also been working to improve our core financial systems. Work continues with the financial management system (Business World) introduced in late 2019 to maximise its benefits including its reporting capability and ensure budget holders can readily access the financial information they need. A new method of recording, monitoring and tracking the council's revenue has been developed, called Income Manager, which was implemented during 2021/22 providing more automated recording of council income and reducing the need for expensive manual intervention and reducing errors.

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

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 7 on page 120.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2021/22 there were no material transactions that require this. Note 36 on page 102 provides further information.

The sections contained within the Narrative Statement are:

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

Looking ahead, the Authority faces very significant financial uncertainty which will make service and financial planning even more challenging than usual. There is still uncertainty over the longer term impact from the pandemic and how the extra service spending such as on social care and reduced income to the council will continue to affect the financial strain on the council. Coupled with that, the economic recovery from the pandemic on its effects local businesses as well as the local labour market will also feed into the funding the council can expect as its major funding streams are inextricably linked with the health of the local economy.

Government has announced the broad details of its reform of Adults Social Care. This included a lifetime cap on the amount anyone in England will need to spend on their personal care, alongside a more generous means-test for local authority financial support. However, the detail of how this will impact on the council's future costs and the funding Government is willing to allocate locally for this remains to be seen.

More generally, Government has not pre-announced any future financial settlement for 2023/24 onwards. This adds considerably to the challenge of planning the authority's finances over the medium term. Long anticipated changes in the method of funding allocation from Government are still expected to arise for local authority from the overhaul of the business rate retention scheme which funds a major part of all local authority income as well as the Fair Funding Review, which is the mechanism that will be applied to balance the respective relative need to spend of each authority, based on various demographic and geographical factors. The reform of Adult Social Care, announced by Government in September 2021 in its paper "Build Back Better: our plans for health and social care" will also play a key part in our future finances. The proposals include a move towards paying a "fair cost of care" to care providers and capping care costs. Nationally, £5.4BN was ring-fenced for social care but exactly how this funding will be distributed locally amongst councils and how it matches their new liabilities remains to be fully seen.

## NARRATIVE STATEMENT

The financial outlook for the council was published at the time of the February 2022 Council meeting as part of the budget papers for the current financial year (2022/23). The Medium Term Financial Forecast contained within that report highlighted a net budget shortfall of £23.4M for 2023/24. Cost pressures, particularly within social care, that were already being faced by the Council have been exacerbated by the Covid-19 pandemic and high levels of inflation and earnings growth continue to put further pressure on the Council's budget. However, I continue to be confident that with work already underway to close this financial gap that the authority can maintain good financial health going forward.

We will continue to err on the side of prudence with planning the finances of the Council, ensuring robust plans are in place to cater for future risks, including the potential for the pandemic and its economic fallout to have a 'long tail' impact on council finances. The emphasis will continue to be on delivering efficient and effective services over the long term, based on long term thinking to ensure sustainable finances. We must deliver a realistic and balanced budget each year, as well as planning our reserves against the risks we face. We know only so much can be done by tactical measures around reducing budgets and restructuring services. We will therefore continue the work to place an emphasis on enhancing and developing cross cutting measures to address our budget pressures over the long term. These include increasing our ability to raise income and promoting a more 'commercial' culture with our services, manage the rising demands we face for services, promoting efficiency with our procurement processes to maximising our purchasing power and reviewing all council systems and processes to reduce overlaps, waste and inefficiency.

### 1. KEY FACTS ABOUT SOUTHAMPTON

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

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

#### Key Statistics

Population 261,716  
(SAPF-2021 based  
forecast)

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

Ave house price  
£241,044 Feb 2022

University of  
Southampton ranked  
14th in 2022 league  
tables

Ranked 0.40 above  
average growth for  
Good Growth (2022)<sup>1</sup>

Ave gross weekly (full  
time) earnings £602.2  
(£613.3 Eng. ave.)  
2021 (resident)

8,045 (4.7%) working  
age residents  
claiming JSA or work-  
related UC (Eng. ave  
4.3%) March

109,210 properties,  
51% owner occupied  
25% private rented  
24% social rented

74.2% 16-64 yr olds in  
employment (Eng. ave  
75.1%) Jan 2021 – Dec  
2021



## NARRATIVE STATEMENT

987 planning applications May 2020 to April 2021

8,785 business enterprises 2021

36,700 higher education students in the city 2020/21<sup>2</sup>

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

<sup>1</sup> PCW good growth index has changed. No longer based on a ranking.

<https://www.pwc.co.uk/industries/government-public-sector/good-growth.html>

<sup>2</sup>Students – numbers have been affected by COVID 19, data is from [HESA](#)

### Council related statistics

- We maintain over 416 miles of highways and 53 parks and over 147 other green spaces and 75 eco areas “managed for wildlife” which cover over 95 hectares
- We also maintain 97 play areas, 24 Multi use games areas, 6 Skateparks and 7 Tennis courts and a mini-golf course
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways
- We run 6 large libraries in Southampton and work in partnership with community organisations to support 5 more local libraries
- 24,152 eBooks and 42,509 eAudiobooks borrowed from the digital library in the last year
- Library users read 128,967 newspapers or magazines on PressReader in the last year
- We provide 15,896 council houses as of March 2022
- We recycle, compost and reuse an estimated 26,300 tonnes of waste every year (data over the last 4 years 2016-20)
- We provide long-term support for 2,463 adults over 18
- We work with and support 75 schools in the city
- Nearly 7,000 children under 5 use our city’s children’s centres (over 14,000 visits per year) and we look after approximately 490 children who are in our care
- Over 1,498 Commercial Waste Customers and approx. 16,000 Garden Waste Customers
- Empty around 130,000 bins from households every week
- Service and maintain nearly 500 vehicles and over 500 pieces of plant and equipment
- We currently have 2,408 people which City Telecare support with telecare devices
- We have about 3,500 supported housing properties which have pull cords available
- The 60+ support service has provided Housing Related Support to over 517 clients during 2021/22 (not all long term – the aim is short term support)
- 4,045 support plans were delivered by Housing Support Workers supporting older vulnerable residents
- We have 472 Extra Care properties in the city

## NARRATIVE STATEMENT

### **Southampton: City of Opportunity 2021-25 Corporate Plan**

The Council's vision is Southampton: City of opportunity; the corporate plan focuses on strategic goals and key deliverables to support the achievement of this vision.

The Council's Corporate Plan 2020-2025 was reviewed and republished in July 2021 as the City of opportunity 2021-2025 Corporate Plan and agreed at full Council. The Plan stated its aims as "to deliver an ambitious, more prosperous, healthy, happy and hopeful city. We will create a city of opportunity where everyone can live fulfilling and rewarding lives. We will deliver a greener connected city for future generations, using the great opportunities and challenges we face to create new employment opportunities for local people through attracting more inward investment and forging new partnerships around the UK and the world. We will be an ambitious, vibrant, and healthy city, that champions our history and heritage, a place that people are proud to live and work and hand to future generations. A city that shows the "art of the possible" through coming together and achieving for all".

The Council's vision is that Southampton is a City of opportunity, with strategic goals focused around the themes of "Growth", "Wellbeing", "Our Greener City", "Communities, Culture and Heritage and "A Council that works for you and with you".

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



Given the changes to the environment, including local political control, a revised corporate plan will be developed during 2022/23.

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

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

### **Political Structure**

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The local elections scheduled for May 2020 were delayed until May 2021 due to the Covid-19 pandemic. As a result of the elections held in May 2021, the political structure during most of 2021/22 was as follows:

- Conservative 25
- Labour 23

### **Council Executive Management Board**

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2021/22 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2021/22.

## NARRATIVE STATEMENT

Chief Executive – **Mike Harris (acting from March 2022, Sandy Hopkins until February 2022)**

Executive Director – Business Services – **James Strachan (acting from March 2022, Mike Harris until February 2022)**

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

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

Executive Director – Place – **Kate Martin (until March 2022)**

Executive Director – Wellbeing (Health and Adults) – **Guy van Dichele**

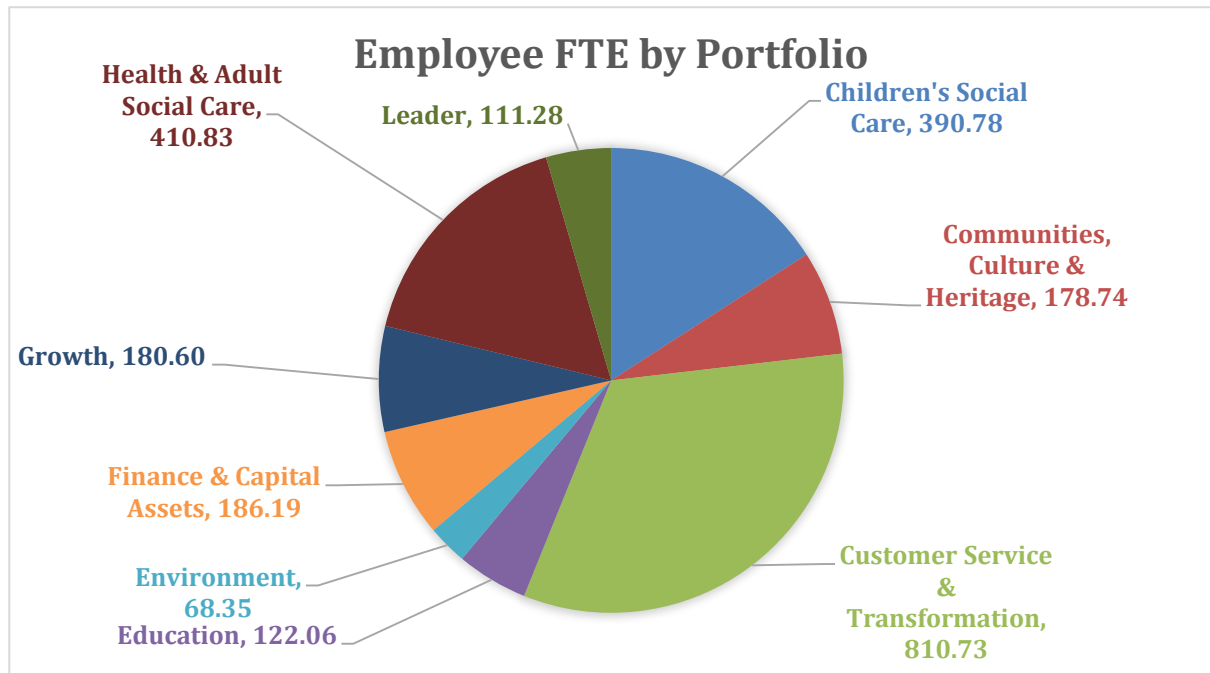
Executive Director - Finance & Commercialisation & S151 Officer – **John Harrison**

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

### Staffing

The Council employs circa 2,505 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

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



For much of the year the Council continued to adopt a policy of advising those employees who could work from home, where possible, to do so to mitigate the risks from Covid-19, in line with Government advice.

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

The measures used to monitor and report on the authority's agreed corporate plan are given below, showing the performance taken from quarter 2 and 4 during 2020/21 and quarter 4 of 2021/22, as well as the direction of travel and any comment as needed.

## NARRATIVE STATEMENT

Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/2021		2021/2022	Current direction of travel	Comments
				Q2	Q4	Q4		
Percentage of people reporting feeling safe in the city – during the day	△	2018/19	81.60%	-	85%	-	Improving	City Survey is carried out every two years last survey was in 2021
Percentage of people reporting feeling safe in the city – at night	△	2018/19	39.60%	-	35%	-	Worsening	
Percentage of people reporting feeling a sense of belonging to the local area (very or fairly strongly)	△	2017/18	72.80%	-	77%	-	Improving	
Metric tonnes of CO2e (old definition)	▽	2018/19	14647.02 tonnes	13544.41 tonnes (2019/20)		11,122 tonnes (2020/21)	Improving	
Recorded levels of nitrogen dioxide in the city's Air Quality Management Areas (ug/m3) (calendar year)	▽	2018	34.53	33.50 (2019)		27.91 (2021)	Improving	
The number of weekday cycles on main cycle routes (where cycle counters are in place) (cumulative)	△	2019/20	27,572	18,736	29,588	31,245	Improving	
The number of passengers using public transport (cumulative)	△	2019/20	20,184,134	3,042,618	7,327,000	14,180,470	Improving	Bus patronage is improving but due to lockdowns it still is near the 2019/20 figures
Reduced journey times (average journey time inbound across 8 main routes in the city)	▽	Nov 2019	14.03mins	11.34 mins			Improving	Data taken from March 2021 weekday peak times.
Reduced journey times (average journey time outbound across 8 main routes in the city)	▽	Nov 2019	13.16mins	11.25 mins			Improving	
Apprenticeship starts (18-64 per 1,000)	△	2018/19	9.74		5.02 (at 6 months April 2020)	-	Stable	Government have not published any new figures since April 2020
Increase in economic growth (Gross value added per head)	△	2018	£31.023	£30,865 (2019)			Stable	2019 is the latest data available, updates are usually received in May/June although with Covid there have been delays to this schedule

## NARRATIVE STATEMENT

Male gap in life expectancy at birth between most and least deprived neighbourhoods	▽	2016-18	6.4 years	8.5 years (2017-2019)	8.9 years (2018-2020)	8.1 years (2019-2021)	Stable	
Female gap in life expectancy at birth between most and least deprived neighbourhoods	▽	2016-18	4.1 years	5.3 years (2017-2019)	3.9 years (2018-2020)	3.4 years (2019-2021)	Stable	
Proportion of city pupils known to be eligible for Free School Meals (Primary)	▽	2018/19	21.90%	24.60%	31.4%	33.7%	Worsening	
Proportion of city pupils known to be eligible for Free School Meals (Secondary)	▽	2018/19	20.40%	23.60%	28.5%	31.6%	Worsening	


### 3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2021/22 was agreed at full council when it met on 24 February 2021 and a balanced budget was set that included around £10.7M of new planned savings for the year. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

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

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

## NARRATIVE STATEMENT



Numbers are rounded

The Council set its 2021/22 budget in February 2021 against a background of uncertainty but with assumptions for the potential on-going financial effects from the Covid-19 pandemic via its effect on demand for council services and its wider economic impact. These risks, and what a 'new normal' may look like, financially, were part of the budget planning and risk management considered when formulating the budget. The gross Covid-19 related budget pressures for 2021/22 were estimated at £20.1M.

Government continued to support local authorities with targeted funding, for example allowing a proportion of income losses from fees and charges to be reclaimed for the first quarter of 2021/22 (which provided £1.2M of funding) and also providing a further £2.0M of funding of Contain Outbreak Management Funds (COMF) to address the spread of Covid-19.

The total overspend at Portfolio level amounted to £6.8M. The most significant overspend related to the Children's and Learning Portfolio (£7.1M adverse), which was a product of a rise in the numbers and cost of looked after children, and additional expenditure relating to increased numbers of temporary social workers to deal with this increase and to cover vacancies.

The Health and Adults Social Care Portfolio shows a small variance at £0.1M adverse, but one-off funding arising from COMF and Infection Control money has been used extensively during 2021/22 to offset additional spending required.

## NARRATIVE STATEMENT

The favourable variance for Other Expenditure & Income (at £13.55M favourable) reflects the planned use of corporate funds and reserves to meet budget pressures and includes £7.8M drawdown from the Social Care Demand Reserve used to offset Social Care overspends plus £6.2M underspend on centrally held contingency/inflation budgets, plus an extra £0.1M unallocated income more than budgeted, less £0.6M transfer to reserves for forecast underspend on Capital Asset Management.

The overall outturn for the council was a contribution to reserves of **£10.9M**.

On-going significant pressure has been experienced in relation to both Adult Social Care and particularly Children's Social Care services due in part to demand and complexity of required services and exacerbated by the pandemic. In relation to Adults Social Care, the immediate costs where clients have been discharged into local authority care were supported on a temporary basis by the local Clinical Commissioning Group (CCG). In relation to Social Care, £9.7M of the Social Care Demand Reserve was applied during the year to address budgeted and other pressures. Going forward, as noted in the section on Reserves and Balances, the Social Care Demand Reserve is now fully utilised.

### Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 26 and further in Note 8.

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

	<b>Budget 2021/22</b>	<b>Portfolio Outturn 2021/22</b>	<b>Outturn Variance 2021/22</b>	
	<b>£M</b>	<b>£M</b>	<b>£M</b>	
Salaries & Wages	128.28	134.63	6.35	A
Premises Costs	13.97	12.34	(1.63)	F
Transportation Costs	6.59	8.29	1.69	A
Supplies & Services	109.38	131.78	22.40	A
Internal Charges	17.38	22.47	5.09	A
Other Direct Costs	243.65	278.23	34.58	A
<b>Total Expenditure</b>	<b>519.26</b>	<b>587.73</b>	<b>68.47</b>	<b>A</b>
Internal Income	(42.22)	(44.89)	(2.67)	F
Fees, Charges & Rents	(50.34)	(57.44)	(7.11)	F
Grants / Contributions	(210.05)	(261.97)	(51.92)	F
<b>Total Net Expenditure</b>	<b>216.65</b>	<b>223.42</b>	<b>6.77</b>	<b>A</b>

Numbers are rounded

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

## NARRATIVE STATEMENT

### COLLECTION FUND

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

The Collection Fund as a whole has a deficit of £14.35M at 31 March 2022. Government grant funding has been received in 2021/22 towards the Business Rates element of the deficit, however the deficit is being recovered from the Council and other preceptors in future years. Under recommended accounting practice the £11.6M of Business Rates support received by the Council has been transferred to the Revenue Grant Reserve to be used in 2022/23.

### HOUSING REVENUE ACCOUNT

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

#### HRA Outturn Position 2021/22

The table below shows the HRA outturn position.

A surplus of £0.92M is being carried forward into 2022/23 as planned.



## NARRATIVE STATEMENT

Housing Revenue Account: Outturn Position 2021/22	Budget 2021/22	Outturn 2021/22	Outturn Variance 2021/22	
	£M	£M	£M	
<b><u>EXPENDITURE</u></b>				
Responsive Repairs	12.15	14.21	2.06	A
Housing Investment	4.97	5.24	0.27	A
<b>Total Repairs</b>	<b>17.12</b>	<b>19.45</b>	<b>2.33</b>	<b>A</b>
Rents Payable	0.10	0.26	0.16	A
Debt Management	0.09	0.09	(0.00)	F
Supervision & Management	24.94	23.53	(1.41)	F
Interest and Principal Repayments	8.83	8.48	(0.34)	F
Depreciation	20.92	19.39	(1.52)	F
Capital Financing	3.88	3.19	(0.69)	F
<b>TOTAL EXPENDITURE</b>	<b>75.87</b>	<b>74.39</b>	<b>(1.48)</b>	<b>F</b>
<b><u>INCOME</u></b>				
Dwelling Rents	71.38	71.04	0.34	A
Other Rents	1.20	1.24	(0.03)	F
<b>Total Rental Income</b>	<b>72.58</b>	<b>72.27</b>	<b>0.30</b>	<b>A</b>
Service Charge Income	2.34	2.34	0.00	A
Leaseholder Service Charges	0.95	0.70	0.25	A
Interest Received	0.01	0.00	0.01	A
<b>TOTAL INCOME</b>	<b>75.87</b>	<b>75.31</b>	<b>0.56</b>	<b>A</b>
<b>SURPLUS/(DEFICIT) FOR YEAR</b>	<b>0.00</b>	<b>0.92</b>	<b>(0.92)</b>	<b>F</b>
<b><u>BALANCES</u></b>				
Working Balance B/Fwd	2.00	2.00	0.00	
Surplus/(deficit) for year	0.00	0.92	0.92	
<b>WORKING BALANCE C/FWD</b>	<b>2.00</b>	<b>2.92</b>	<b>0.92</b>	

Numbers are rounded

## CAPITAL

The capital programme budget for the year, including changes approved during the course of the year, was £127.33M in total for both the General Fund and HRA. Final capital spend for the year was £102.38M, this was £24.96M less than the budget, including slippage/re-phasing of £24.81M. This will be reflected in the post outturn update of the overall programme.

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

## NARRATIVE STATEMENT

Service	2021/22 Budget £M	2021/22 Expenditure £M	Variance £M
Communities, Culture & Heritage	3.61	2.75	0.86 F
Customer Service & Transformation	12.92	7.22	5.69 F
Education & Children's Social Care	31.07	26.17	4.91 F
Environment	2.31	1.75	0.56 F
Finance & Capital Assets	0.68	0.21	0.47 F
Growth	38.73	31.14	7.59 F
Health & Adult Social Care	0.07	0.07	0.01 F
<b>Total General Fund Programme</b>	<b>89.39</b>	<b>69.31</b>	<b>20.08 F</b>
Housing Revenue Account	37.94	33.07	4.88 F
<b>Total Capital Programme</b>	<b>127.33</b>	<b>102.38</b>	<b>24.96 F</b>

Numbers are rounded

The final spend for the year was £24.96M lower than the budget, with slippage now expected to be spent in 2022/23 predominantly on the following schemes:

Integrated Transport	£4.14M
Highways	£1.06M
Corporate Assets Decarbonisation Scheme	£1.78M
Bridges	£1.15M
Secondary Expansion	£2.40M
School Capital Maintenance	£0.52M
SEND Review	£2.11M
HRA - Making Homes Safe	£0.52M
HRA - Making Homes Energy Efficient	£0.47M
HRA - Regeneration & New Build	£2.37M
IT Investment	£1.39M
Parks & Open Spaces Investment	£1.07M
Fleet Vehicle Replacement Programme	£1.61M

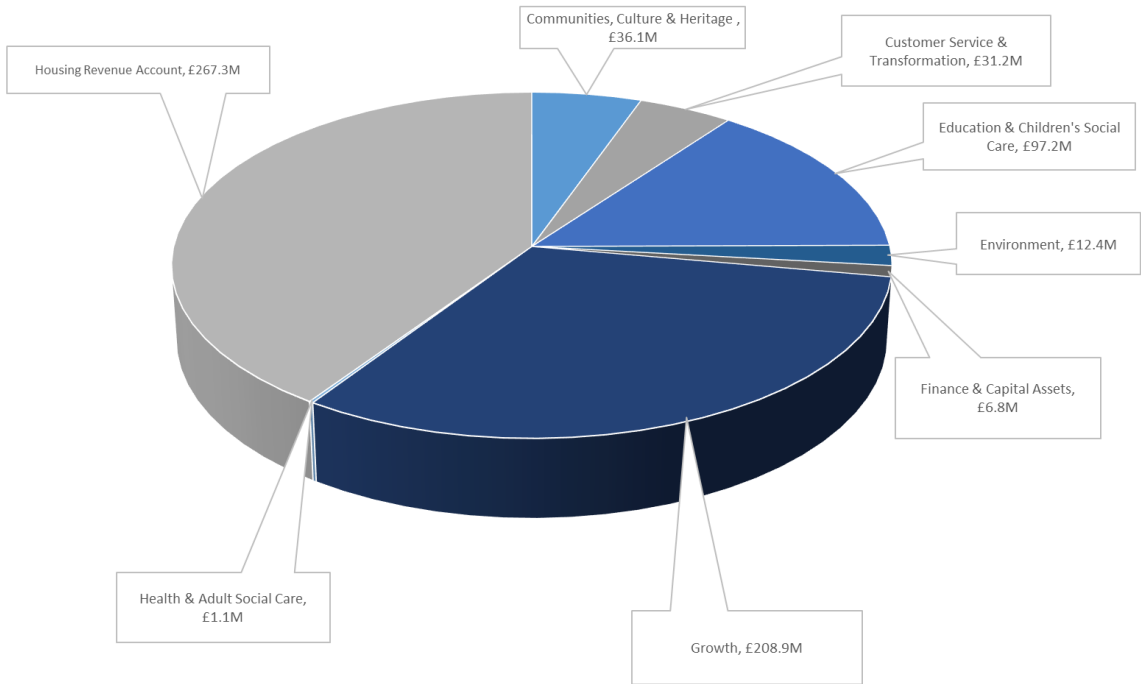
Numbers are rounded

### 5 Year Capital Programme

The current approved 5-year capital programme which totals £660.96M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.

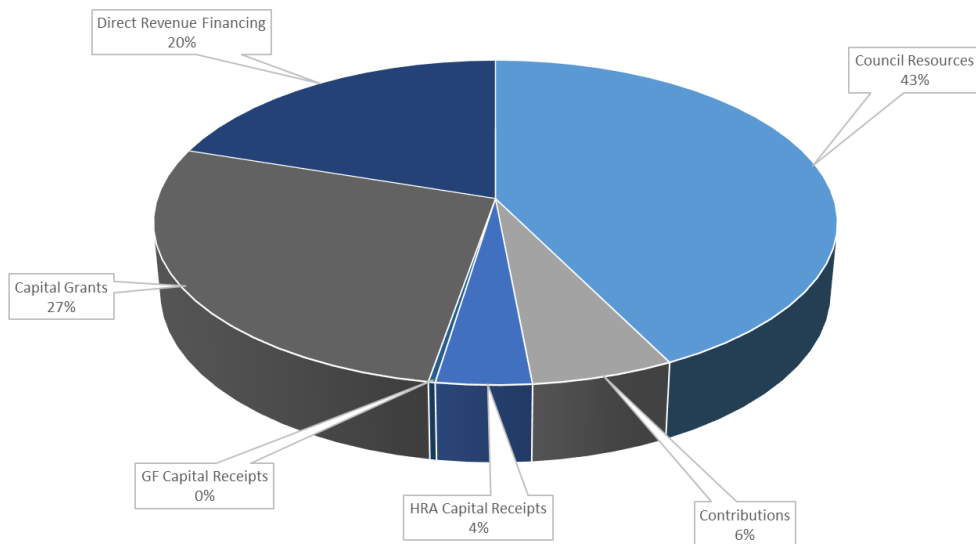
# NARRATIVE STATEMENT

**CAPITAL EXPENDITURE - 5 YEAR PROGRAMME 2021/22 - 2025/26**



Funded by:

**CAPITAL FUNDING - 5 YEAR PROGRAMME 2021/22 - 2025/26**



## NARRATIVE STATEMENT

### TREASURY MANAGEMENT

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

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

The Churches, Charities and Local Authorities (CCLA) property investment fund has generated returns of 3.78% against our original investment of £27M. The fund recovered well in 2021/22 and the estimated property value gained £4.6M in the year, following losses in both 2019/20 and 2020/21 amounting to £0.72M. The fair value for 2021/22 was £30.89M against the original £27M investment an estimated gain of £3.89M.

### RESERVES AND BALANCES

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

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

In light of the increasing level of risk and uncertainty identified with the MTFs and the increased probability of financial resources being required to support service delivery, it continues to be important that the Council maintains strong levels of reserves. Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2022. The necessity for a robust level of reserves is reinforced by the financial pressures commencing in late 2019/20, during 2020/21 and into 2021/22 arising from the Covid-19 situation and its economic effects. Though Government grant support has been made available to assist with the additional costs and loss of income, no financial support was available from Government for the impact the pandemic has had on setting back savings plans and from any longer term economic consequences e.g. impact on fees and charges income streams.

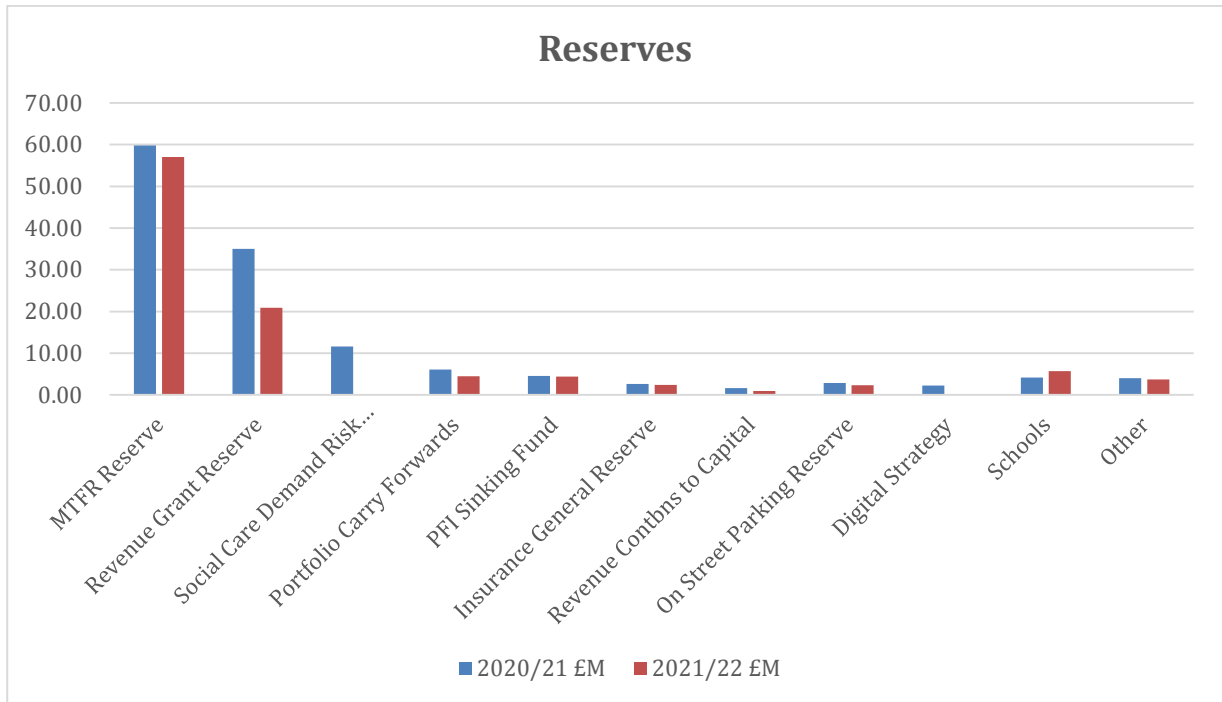
The graph below highlights the changes in the value of reserves between 31 March 2021 and 31 March 2022.

The Council's primary reserve for addressing both budget management and other financial risks is the Medium Term Financial Risk (MTFR) reserve, which had a balance of £57.0M as at 31 March 2022.

The Social Care Demand reserve was applied in 2021/22 to the tune of £9.7M, and the remaining balance of £1.9M transferred into the MTFR reserve. This reserve has therefore been exhausted, having a nil balance at the year-end.

It is important to note that the Revenue Grant Reserve has reduced significantly, but this reserve still mainly reflects timing differences in accounting for business rates and not funds unallocated and available to the Council to use. The Government continued arrangements to provide discounts to the business rates payable by sectors of the economy impacted by Covid-19 restrictions. In order that local government funding did not suffer as a consequence from lower business rate receipts, the loss of revenue was fully recompensed by the government in 2021/22. The Council received £11.6M of additional grant for business rates foregone. However, the accounting arrangements for business rates mean that the shortfall experienced in 2021/22 will not be charged to the General Fund until 2022/23 and hence the additional grant has been added to reserves for this purpose. This sum is therefore committed in 2022/23 to make good the shortfall and does not represent additional resources available to the Council to spend on service provision.

## NARRATIVE STATEMENT



The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2022/23 and the required level of minimum balance, as determined by assessing the level of risk the Council faces, is considered to be £10M (the existing level).

### PRINCIPAL RISKS AND UNCERTAINTY

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

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

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

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

## NARRATIVE STATEMENT

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

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

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2022. It details both revenue and capital elements for both the General Fund and the HRA.

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

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

<b>Core Financial Statements:</b>	Page
<b>Responsibilities for the Statement of Accounts</b>	25
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
<b>Expenditure and Funding Analysis (Not a Core Financial Statement)</b>	26
The purpose of this note is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	27
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
<b>Movement in Reserves Statement (MiRS)</b>	28
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves', (i.e. those that can be applied to fund expenditure or reduce local taxation), and other 'unusable' reserves which are set aside for specific purposes. As a local authority, special dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.	

## NARRATIVE STATEMENT

### Balance Sheet

The Balance Sheet shows the value as at the 31 March 2022 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 29

### Cash Flow Statement

This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as; 30

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

**Notes to the Core Financial Statements (including Accounting Policies)** 31 – 109

**Housing Revenue Account (HRA)** 110 - 114

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

**Collection Fund** 115 - 117

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

**Glossary** 118 - 121

**Annual Governance Statement** 122 - 136

**Auditor's Report and Certificate** 137

## 5. ISSUES AND DEVELOPMENTS

### COVID-19 Pandemic

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

The financial implications of Covid-19 were captured and reported regularly to the Department of Levelling Up, Housing and Communities (DLUHC) during the year.

The Council has received £7.8M of Covid-19 funding, as a final tranche of general funding for additional costs faced due to Covid-19. Furthermore, the Council received £1.2M in support from Government through its compensation scheme for Sales Fees and Charges lost income, covering the first quarter of 2021/22. This followed on from a scheme of compensation which applied in 2020/21 and whereby Government assists with 75% compensation for lost fees and charges income, after deduction of a 5% allowance from budgets for volatility. This scheme ceased after this first quarter of the year.

No Covid-19 related government support has been provided for the Housing Revenue Account.

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

## NARRATIVE STATEMENT

At the February 2021 Council meeting a robust budget for 2021/22 was set, which took account of the anticipated ongoing financial costs and pressures Covid-19 would continue to have on the Council. All Covid-19 related adverse financial impacts have been managed, as they would with any other challenge, with sound financial management and applying the best informed financial assessment of its impact.

Part of the picture which provides for financial resilience are corporate sums which provide cover for all manner of risks, which include a general fund balance of £10.1M and a Medium Term Financial Risk Reserve unallocated sum of £41.1M as at 31 March 2022.

The contingency and centrally held budgets within the 2021/22 budget were set at approx. £9.5M per the February budget papers agreed by Council. The HRA balance at 31 March 2021 was £2M.

The Council has been either directly involved, or worked in partnership, to support many different initiatives designed to protect our communities, local business and vulnerable people to help overcome the pandemic crisis. During 2021/22, these measures included:

- Spent approx. £3.5M in 2021/22 on combating Covid via infection control measures within Adults Social Care and £2.1M on addressing workforce capacity issues (both grant funded).
- Of the grants received from Government, £16.8M has been in the form of funding to administer and disperse to local businesses to ensure they have continued support during challenging times including during mandatory lock downs and recognising businesses needed help to resume after lock downs with measures to promote safe practices when re-opening to the public.
- Used £0.2M of grant to support the vaccination of the homeless and rough sleepers and a further £0.3M to help minimise rent arrears.
- Administering £1.1M of grant support for holiday activities and food support, including free school meals over the holiday period for those children in need of that support.
- Administering £2.0M from the Household Support Fund allocation from the Government, which provided direct help to those who need it most. The grant provided support via small payments to support vulnerable households meet daily needs such as food, clothing and utilities.
- Provided additional support for COVID safe Home to School Transport with around £0.4M in grant funding support from Government.
- Used £4.8M of COMF funding received from Government on a variety of measures to reduce the spread of the virus and minimize infections. A balance of £1.9M of COMF funding has been carried forward into 2022/23 to support ongoing work in the new year.
- Operate a local Test and Trace Service, supported by £0.8M of Government support.

The Council's Medium Term Financial Forecast will be regularly reviewed, and as part of the February 2022 budget report to Council highlighted an anticipated shortfall of around £23.4M for 2023/24. Work has started early to address this shortfall, however, and the Council has a good degree of financial strength, as evidenced by the recent CIPFA resilience index.

### **Integrated Highways and Transport capital programme**

Work progressed during the year on the Council's Integrated Transport & Highways Capital Programme for 2021/22, including the delivery of a number of high-profile transport schemes such as:

- Transforming Cities Programme including infrastructure for the hospital Park & Ride, enhanced traffic signal technology, cycling and public transport interchanges;
- Active Travel Fund for cycling and walking;
- Future Transport Zone programme;
- Programme of road safety, public transport, school streets, cycle and walking, and Intelligent Transport Systems (ITS);
- Highways Roads Programme covering carriageway resurfacing, footway and kerbing reconstruction, and footway surfacing.



## NARRATIVE STATEMENT

### City of Culture

During 2020/21, at full Council there was unanimous support to agree the commitment and necessary funding to bid for City of Culture status for 2025. This has the capacity to be a major development, raising the profile of the city and giving long term economic benefits; opportunities for young people; regional, national and international profile raising for the City as well as helping to address the social needs of our city, using culture as a catalyst to bring the City together and drive change. This bidding work progressed during 2021/22, with Southampton selected as one of the four finalist localities being shortlisted for City of Culture 2025. Unfortunately the City was unsuccessful in its bid, however the Council will continue working with partners to develop a legacy from the bidding process.

### Freeport

Southampton City Council has also been a part of the Solent freeport bid alongside other local councils and major businesses. During 2021/22 Solent Freeport was in the process of formulating its final business case, which was submitting very shortly after the financial year-end to Government. It aims to secure the advantages a Freeport could bring to Southampton and the wider area. This should facilitate major private and publicly funded investment over the next 25 years. The forecast benefits include:

- Over £1.6Bn of private investment. This includes marine technology, advanced manufacturing and logistics and high innovation firms attracted due to the tax benefits plus a forecast 26,000 jobs created in the Solent area. Investment facilitated by business rate growth over 25 years which will support:
  - Identified Freeport infrastructure and connectivity needs, in line with agreed local and regional ambitions and strategies;
  - The UK's Net Zero ambitions as well as regional environmental ambitions, including the Freeport's own net zero strategy.

### Starboard Way

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes, at an expected cost of £17.4M. Construction has therefore been underway with the scheme comprising of one, two and three-bedroom houses and one and two-bedroom flats and benefits from a range of energy-efficient features. The scheme is expected to deliver a mix of social rent (36%), affordable rent (28%) and shared ownership (36%) properties. There will also be areas of formal and informal play across the site including the delivery of a new children's play area in the centre of the scheme.

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

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

The first residents moved in during 2021/22, with the site completion expected to take place during Winter 2022/23.

### Support for Refugees

During 2021/22, the Council was heavily involved in supporting refugees, especially from Afghanistan and the Ukraine. The Council received £0.8M in support of Afghan refugees, which included support for local

## NARRATIVE STATEMENT

school places and accommodation. With support from the Council, the former toy store (Toys R Us) which was closed for more than three years, was transformed into a donation centre for Ukrainian refugees during March 2022.

### St Marks School

During 2021/22, there was a successful handover of the primary wing of the multi-million-pound brand-new all-through school, being the initial phase of the school development, with an estimated overall cost of £39.8M. So far it comprises:

- 14 light and airy classrooms
- Group teaching space, staff rooms and offices
- Primary school hall
- External playground and soft landscaping and tree planting
- Temporary school reception and staff car park

### Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2021/22. The implementation of International Financial Reporting Standard (IFRS) 16 *Leases*, previously expected to be applied from 2022/23, has been deferred until 2024/25, although local authorities will have the option to adopt it earlier.

### Going Concern Update

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the council will continue for the foreseeable future.

The council has assessed its financial position for future years through the medium-term financial planning process. The budget for 2023/24 relied on £20.6M use of reserves and £22.0M of new planned savings to achieve a balanced position. A budget shortfall of £21.2M was forecast for 2024/25. Revenue reserves (excluding schools' balances) were forecast to be £20.7M at the end of 2023/24, which was considered insufficient to cover the council's risks.

Recognising the serious financial challenge faced by the council work has been underway on a revised Medium Term Financial Strategy (MTFS). An update on the MTFS was reported to Full Council in July 2023, to set out actions and a new strategy, intending to reduce expenditure in 2023/24 and for future years. The report outlined a forecast budget shortfall of £20.9M in 2023/24 after taking into account £9.1M new in-year cost control measures, with the budget gap rising to £46.1M in 2024/25. Work is continuing during 2023/24 on delivery plans for further cost control measures to help address the in-year overspend and the forecast shortfall as at the end of July 2023 has reduced to £17.9M. While some progress is being made in addressing the in-year overspend, there is the potential for a significant drawdown on reserves being required to balance the position. There is the possibility that exceptional financial support from Government may be needed and the prospect of a section 114 notice being required in the next 12 months remains real, which has the potential to impact on the level of service provision.

The council has undertaken cashflow forecasting up to the end of October 2024. Our projections for the revenue budget show that the council has sufficient liquidity over this period.

Although the council has sufficient liquidity over the specified period, in view of the forecast budget shortfalls and depleted revenue reserves, the Council has assessed that the combination of the risks and uncertainties it faces at this time creates a material uncertainty which casts doubt on its ability to continue to operate planned operational services for the period of 12 months from the date of approval of these financial statements. More detail can be found in the disclosure notes below, around the issue of the council as a going concern, in Section 1 Accounting Policies (a) general principles (page 33)).

# STATEMENT OF RESPONSIBILITIES

## 1. The Council's Responsibilities

The Council is required to:

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

## 2. The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts the S151 Officer has:

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

The S151 Officer has also:

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

## 3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2022 and of its income and expenditure for the year ended 31 March 2022.

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

## 4. Approval of the Accounts

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

Signed **A Frampton** \_\_\_\_\_ Date  
Chair, Governance Committee

# THE FINANCIAL STATEMENTS

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 53. Note 5 contains an explanation of the restatement for 2020/21.

<u>2020/21 Restated</u>				<u>2021/22</u>		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
47,211	3,662	50,873	Children's Social Care	53,617	5,928	59,545
10,766	59	10,825	Communities, Culture & Heritage	10,779	(376)	10,403
48,055	3,393	51,448	Customer Service & Transformation	49,836	9,404	59,240
9,983	7,859	17,842	Education	12,885	8,595	21,480
2,170	241	2,411	Environment	1,388	880	2,268
1,517	9,830	11,347	Finance & Capital Assets	1,775	9,073	10,848
11,460	5,010	16,470	Growth	4,896	4,508	9,404
74,408	(4,750)	69,658	Health & Adult Social Care	83,371	3,516	86,887
(12,970)	3,394	(9,576)	Housing Revenue Account (HRA)	(13,369)	5,996	(7,373)
6,125	612	6,737	Leader	4,877	1,073	5,950
(113)	205	92	Housing Benefit	52	402	454
0	(2,113)	(2,113)	Other Income & Expenditure	0	(1,030)	(1,030)
			<b>Other items of expenditure and income:</b>			
0	3,493	3,493	Revaluation & Impairment of General Fund Assets	0	(1,044)	(1,044)
0	(42,021)	(42,021)	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	(38,693)	(38,693)
<b>198,612</b>	<b>(11,126)</b>	<b>187,486</b>	<b>Cost of Services</b>	<b>210,107</b>	<b>8,232</b>	<b>218,339</b>
<b>(245,398)</b>	<b>42,561</b>	<b>(202,837)</b>	<b>Other Income &amp; Expenditure</b>	<b>(178,372)</b>	<b>7,571</b>	<b>(170,801)</b>
<b>(46,786)</b>	<b>31,435</b>	<b>(15,351)</b>	<b>(Surplus)/Deficit</b>	<b>31,735</b>	<b>15,803</b>	<b>47,538</b>
<b>(97,829)</b>			<b>Opening General Fund Balance</b>	<b>(144,615)</b>		
<b>(2,000)</b>			<b>Opening HRA Balance</b>	<b>(2,000)</b>		
<b>(46,786)</b>			<b>Less/Plus Deficit/(Surplus) on General Fund</b>	<b>32,655</b>		
<b>0</b>			<b>Less/Plus Deficit/(Surplus) on HRA</b>	<b>(920)</b>		
<b>(144,615)</b>			<b>Closing General Fund Balance</b>	<b>(111,960)</b>		
<b>(2,000)</b>			<b>Closing HRA Balance</b>	<b>(2,920)</b>		
<b>(146,615)</b>			<b>Closing General Fund &amp; HRA Balance</b>	<b>(114,880)</b>		

# THE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

Note 5 contains an explanation of the restatement for 2020/21.

<u>2020/21 Restated</u>				<u>2021/22</u>			
<u>Expenditure</u>	<u>Income</u>	<u>Net</u>		<u>Expenditure</u>	<u>Income</u>	<u>Net</u>	
<u>£000</u>	<u>£000</u>	<u>£000</u>		<u>Notes</u>	<u>£000</u>	<u>£000</u>	
55,414	(4,541)	50,873	Children's Social Care		64,714	(5,169)	59,545
17,463	(6,638)	10,825	Communities, Culture & Heritage		21,848	(11,445)	10,403
64,276	(12,828)	51,448	Customer Service & Transformation		73,907	(14,667)	59,240
184,903	(167,061)	17,842	Education		191,151	(169,671)	21,480
6,815	(4,404)	2,411	Environment		7,069	(4,801)	2,268
19,510	(8,163)	11,347	Finance & Capital Assets		22,244	(11,396)	10,848
28,844	(12,374)	16,470	Growth		38,917	(29,513)	9,404
130,069	(60,411)	69,658	Health & Adult Social Care		150,034	(63,147)	86,887
70,844	(80,420)	(9,576)	Housing Revenue Account (HRA)		74,071	(81,444)	(7,373)
8,746	(2,009)	6,737	Leader		8,324	(2,374)	5,950
71,142	(71,050)	92	Housing Benefit		64,678	(64,224)	454
512	(2,625)	(2,113)	Other Income & Expenditure		436	(1,466)	(1,030)
			<b>Other items of expenditure and income:</b>	6			
3,493	0	3,493	Revaluation & Impairment of General Fund Assets		(1,044)	0	(1,044)
(42,021)	0	(42,021)	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		(38,693)	0	(38,693)
<b>620,010</b>	<b>(432,524)</b>	<b>187,486</b>	<b>Cost of Services</b>	8	<b>677,656</b>	<b>(459,317)</b>	<b>218,339</b>
13,575	(4,478)	9,097	Loss/ (Gain) on the disposal of Non Current Assets	12c	57,508	(8,946)	48,562
86	0	86	Contributions to Other Local Public Bodies		87	0	87
1,160	0	1,160	Contributions of Housing Capital Receipts to Government Pool		1,160	0	1,160
<b>14,821</b>	<b>(4,478)</b>	<b>10,343</b>	<b>Other Operating Expenditure</b>		<b>58,755</b>	<b>(8,946)</b>	<b>49,809</b>
6,779	(6,170)	609	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	(2,009)	(6,757)	(8,766)
16,657	0	16,657	Interest payable and similar charges	11	14,991	0	14,991
0	(1,854)	(1,854)	Interest and Investment Income	11	0	(5,727)	(5,727)
11,063	0	11,063	Net interest on the defined benefit liability (asset)	34b	12,067	0	12,067
<b>34,499</b>	<b>(8,024)</b>	<b>26,475</b>	<b>Financing, and Investment Income &amp; Expenditure</b>		<b>25,049</b>	<b>(12,484)</b>	<b>12,565</b>
0	(103,514)	(103,514)	Council Tax Income		0	(107,013)	(107,013)
0	(26,937)	(26,937)	Business Rates		0	(39,655)	(39,655)
0	(58,390)	(58,390)	General Government Grants	37c	0	(45,750)	(45,750)
0	(25,586)	(25,586)	S31 Business Rates Grant for COVID-19 Reliefs	6, 37c	0	(12,011)	(12,011)
0	(25,228)	(25,228)	Capital Grants and Contributions	37b	0	(28,746)	(28,746)
<b>0</b>	<b>(239,655)</b>	<b>(239,655)</b>	<b>Taxation and Non-Specific Grant Income</b>		<b>0</b>	<b>(233,175)</b>	<b>(233,175)</b>
<b>669,330</b>	<b>(684,681)</b>	<b>(15,351)</b>	<b>Deficit/(Surplus) on the Provision of Services</b>		<b>761,460</b>	<b>(713,922)</b>	<b>47,538</b>
		(15,107)	Deficit/(Surplus) on revaluation of non current assets	22a			(15,671)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		61,780	Remeasurements of the net defined benefit liability (asset)	34b			(211,034)
		<b>46,673</b>	<b>Other Comprehensive (Income)/Expenditure</b>				<b>(226,705)</b>
		<b>31,322</b>	<b>Total Comprehensive (Income)/Expenditure</b>				<b>(179,167)</b>

# THE FINANCIAL STATEMENTS

## Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2021	(10,066)	(134,549)	(2,000)	0	(10,656)	(2,497)	(48,752)	(208,520)	(711,210)	(919,730)
<b><u>Movement in Reserves during 2021/22</u></b>										
Total Comprehensive Income and Expenditure	89,355		(41,817)					47,538	(226,705)	(179,167)
Adjustments between accounting basis and funding basis under regulations (note 10)	(56,700)		40,897		(4,094)	2,497	12,917	(4,483)	4,483	0
Transfers to / (from) earmarked reserves (note 9)	(32,655)	32,655						0		0
<b>(Increase) / Decrease in Year</b>	<b>0</b>	<b>32,655</b>	<b>(920)</b>	<b>0</b>	<b>(4,094)</b>	<b>2,497</b>	<b>12,917</b>	<b>43,055</b>	<b>(222,222)</b>	<b>(179,167)</b>
Balance at 31 March 2022	(10,066)	(101,894)	(2,920)	0	(14,750)	0	(35,835)	(165,465)	(933,432)	(1,098,897)

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

# THE FINANCIAL STATEMENTS

## Balance Sheet

<u>31 March 2021</u>		<u>Notes</u>	<u>31 March 2022</u>
£000			£000
1,527,916	Property, Plant & Equipment	12	1,563,793
190,249	Heritage Assets	13	191,274
113,098	Investment Properties	14	114,136
8,720	Intangible Assets	15	8,808
27,310	Long Term Investments	17b	31,921
3,625	Long Term Debtors	18	3,495
<b>1,870,918</b>	<b>Non Current Assets</b>		<b>1,913,427</b>
2,434	Short Term Investments	17b	24,716
0	Assets held for Sale	16	0
1,091	Stock (Inventories)		909
71,524	Short Term Debtors	18	53,142
30,130	Cash & Cash Equivalents	19	54,502
<b>105,179</b>	<b>Current Assets</b>		<b>133,269</b>
(2,475)	Cash & Cash Equivalents	19	(6,654)
(364)	Deferred Liabilities	38	(364)
(28,417)	Short Term Borrowing	17b	(16,827)
(126,274)	Short Term Creditors	20	(140,486)
(5,936)	Provisions	21	(7,137)
<b>(163,466)</b>	<b>Current Liabilities</b>		<b>(171,468)</b>
(47,556)	Long Term Creditors	17b	(44,412)
(5,383)	Provisions	21	(6,387)
(213,847)	Long Term Borrowing	17b	(239,197)
	Other Long Term Liabilities		
(13,098)	- Deferred Liabilities	38	(12,734)
(26,298)	- Cap. Grants & Conts Receipts in Advance	37a	(49,856)
(586,719)	- Pension Fund Liability	34c	(423,745)
<b>(892,901)</b>	<b>Long Term Liabilities</b>		<b>(776,331)</b>
<b>919,730</b>	<b>Net Assets</b>		<b>1,098,897</b>
	<b>Useable Reserves</b>		
(10,656)	Useable Capital Receipts Reserve	10	(14,750)
(48,752)	Cap. Grants & Conts Unapplied	10	(35,835)
(134,549)	Earmarked Revenue Reserves	9	(101,894)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,920)
(2,497)	HRA Major Repairs Reserve	10	0
<b>(208,520)</b>			<b>(165,465)</b>
	<b>Unuseable Reserves</b>		
(414,815)	Revaluation Reserve	22a	(408,605)
719	Pooled Fund Adjustment Account	22g	(3,894)
(922,500)	Capital Adjustment Account	22b	(965,045)
38	Financial Instruments Adjustment Account		0
586,719	Pension Reserve	22c	423,745
25,790	Collection Fund Adjustment Account	22d	6,048
3,905	Accumulated Absences Account	22e	3,227
8,934	Dedicated Schools Grant Adjustment Account	22f	11,092
<b>(711,210)</b>			<b>(933,432)</b>
<b>(919,730)</b>	<b>Total Reserves</b>		<b>(1,098,897)</b>

# THE FINANCIAL STATEMENTS

## Cash Flow Statement

<u>2020/21</u>			<u>2021/22</u>
£000		Notes	£000
15,351	Net surplus or (deficit) on the provision of services		(47,538)
112,804	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a)	120,146
<u>(35,660)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a)	<u>(53,042)</u>
<b>92,495</b>	<b>Net Cash Flows From Operating Activities</b>		<b>19,566</b>
(30,653)	Net Cash flows from Investing Activities	23 c)	(30,095)
<u>(61,052)</u>	Net Cash flows from Financing Activities	23 d)	<u>30,722</u>
<b>790</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>20,193</b>
26,865	Cash and cash equivalents at the beginning of the reporting period	23 e)	27,655
<u><b>27,655</b></u>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	23 e)	<u><b>47,848</b></u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Index of Notes to the Core Financial Statements

Note	Descriptions	Page Number
1	Accounting Policies	33
2	Accounting Standards that have been issued but not yet adopted	47
3	Critical judgements in applying accounting policies	47
4	Assumptions made about the future and other major sources of estimation uncertainty	49
5	Prior Period Adjustments	52
6	Other Items of Income and Expenditure	52
7	Events after the reporting period	52
8	Expenditure and Funding Analysis	53
9	Transfers to/from Earmarked Reserves	57
10	Adjustments between accounting basis and funding basis under regulations	59
11	Interest Payable and Receivable	61
12	Property Plant & Equipment	61
13	Heritage Assets	67
14	Investment Properties	68
15	Intangible Assets	69
16	Assets Held for Sale	69
17	Financial Instruments	70
18	Debtors	79
19	Cash and Cash Equivalents	79

## NOTES TO THE CORE FINANCIAL STATEMENTS

Note	Descriptions	Page Number
20	Creditors	80
21	Provisions	91
22	Unusable Reserves	82
23	Notes to Cash Flow Statement	86
24	Agency Services	88
25	Member's Allowances	88
26	Officers' remuneration	89
27	External Audit Costs	92
28	Dedicated Schools Grant	92
29	Related Parties	93
30	Capital Expenditure	95
31	Leases	95
32	PFI and Similar Contracts	96
33	Pension Schemes Accounted for as Defined Contribution	99
34	Defined Benefit Pension Schemes	100
35	Contingent Liabilities/Assets	104
36	Interest in Companies	104
37	Capital and Revenue Grants & Contributions, Receipts in Advance	105
38	Deferred Liabilities	108
39	Pooled Budgets	108
40	Trust and Other Funds	109

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

This Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

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

The council has undertaken cashflow forecasting up to the end of October 2024. The projections for the revenue budget show that the council has sufficient liquidity over this period. There is no identified need for borrowing to manage the working capital for revenue balances, other than possible temporary borrowing to manage fluctuations in cash flow. The council does have a significant capital programme for the same period and there was always an intent to borrow, either from the PWLB or other sources, to fund this programme. The timing and extent of the capital programme is being reviewed as part of an in-year budget review, however the council is of the view that appropriate loan arrangements will be available if required. The council is forecast to be within its authorised limit and operational boundary for external debt and has significant headroom between its forecast gross debt and capital financing requirement.

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

The council assesses its financial position for future years through the medium-term financial planning process. At the Full Council meeting in February 2023, the budget for 2023/24 was agreed, relying on £20.6M use of reserves and £22.0M of new planned savings to achieve a balanced position. A further budget shortfall of £21.2M was forecast for 2024/25. Revenue reserves (excluding schools' balances) were forecast to be £20.7M at the end of 2023/24, which was considered insufficient to cover the council's risks.

Recognising the serious financial challenge faced by the council work began immediately on a revised Medium Term Financial Strategy (MTFS). An update on the MTFS was reported to Full Council in July 2023, setting out the financial strategy adopted and actions being taken to reduce expenditure in 2023/24 and future years. These included identifying savings proposals which were challenged by the finance team, and further cost control methods were immediately put in place. These included restrictions on new spending and additional approvals from senior management and the Chief Executive.

The updated MTFS outlined forecast budget and inflationary pressures as at the end of June 2023 of £30.0M in 2023/24, offset by £9.1M from those in-year cost control measures (identified above), but leaving a forecast budget shortfall for the year of £20.9M.

As part of this review the forecast budget shortfall for 2024/25 also increased by £24.9M to a total forecast deficit for that year of £46.1M.

Work is continuing during 2023/24 on delivering further cost reductions to address the in-year overspend. The forecast position as at the end of July 2023 improved from the MTFS update, and the budget shortfall reduced from £20.9M to £17.9M in 2023/24. While this shows some progress is being made in addressing the in-year overspend, further control measures need to be identified and implemented at a sufficient pace to fully reduce the shortfall in the going concern period. There is a risk for further drawdown on the already depleted revenue reserves. Informal discussions have commenced with Government to appraise them of the council's financial position and the possible need for exceptional financial support. But the prospect of

## NOTES TO THE CORE FINANCIAL STATEMENTS

a section 114 notice being required in the next 12 months remains a possibility which will impact on the level of service provision.

Although the council has sufficient liquidity over the specified period, in view of the forecast budget shortfalls and depleted revenue reserves, the council has assessed that the combination of the risks and uncertainties it faces at this time creates a material uncertainty which casts doubt on its ability to continue to operate planned operational services for the period of 12 months to the end of October 2024.

### b) Accruals of Income and Expenditure

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

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

### c) Cash and Cash Equivalents

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

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

### g) Dedicated Schools Grant Deficit

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

### h) Employee Benefits

#### *Benefits Payable during Employment*

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include

## NOTES TO THE CORE FINANCIAL STATEMENTS

such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. An accrual has also been made in respect of annual leave carried forward by non-teaching staff as carry forward balances have been much higher than usual due to COVID-19.

### *Termination Benefits*

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

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

### *Post-Employment Benefits*

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

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

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

### *Local Government Pension Scheme*

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Service Cost comprising:*

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

### *Remeasurements comprising:*

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

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

### *Teachers' Pension Scheme*

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### j) Financial instruments

#### *Financial Liabilities*

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

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

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

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

#### *Financial Assets*

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

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

#### *Financial Assets Measured at Amortised Cost*

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

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

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

### **Business Improvement District (BID)**

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

### **Community Infrastructure Levy (CIL)**

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

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

### **l) Heritage Assets**

The Council's Heritage Assets are mainly held in the Council's museums, although a number of Ancient

## NOTES TO THE CORE FINANCIAL STATEMENTS

Monuments (including the City Walls) are also held.

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

### *Heritage Assets on the Balance Sheet*

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

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

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

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

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

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

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

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

## **n) Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### **o) Joint Operations**

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

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

### **p) Leases**

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

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

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

#### *The Council as Lessee*

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

#### *The Council as Lessor*

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### r) Property, Plant and Equipment

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

#### *Recognition*

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

#### *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

Infrastructure assets are measured at a modified depreciated historical cost, due to missing information for the years before capital accounting was implemented in 1994/95. Gross book value and accumulated depreciation are not disclosed for infrastructure assets because of this information deficit and because they are not written down as assets are replaced.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

### *Impairment*

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

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

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

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

### *Depreciation*

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

Depreciation is calculated on the following bases:

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

#### *Provisions*

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

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

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

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

#### *Contingent Liabilities*

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

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

#### *Contingent Assets*

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

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

### **u) Reserves**

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

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

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

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the

## NOTES TO THE CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of Council Tax.

### w) Schools

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

### x) Value Added Tax (VAT)

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

### y) Fair Value Measurement

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

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

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

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

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

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

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

### z) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may –



## NOTES TO THE CORE FINANCIAL STATEMENTS

from time-to-time – not be the strict sums of the figures presented in the text or tables.

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

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2022/23 Code. New standards that are expected to be introduced in the 2022/23 Code that apply from 1 April 2022 are:

- Annual improvements to IFRS standards 2018-2020:
  - IFRS 1 *First Time Adoption of IFRS* – amendment relating to foreign operations of acquired subsidiaries transitioning to IFRS
  - IAS 37 *Provisions, Contingent Assets and Contingent Liabilities* – specification of costs to be included when assessing whether a contract will be onerous
  - IFRS 16 *Leases* – removal of misleading example concerning lease incentives
  - IAS 41 *Agriculture* – removal of cash flows for taxation from fair value calculations

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

- IFRS 16 *Leases* – requiring all leases to be recognised on the Balance Sheet, subject to a de-minimis and exemptions. CIPFA/LASAAC has deferred the requirement to account for leases in accordance with IFRS 16 from 1 April 2022 until 1 April 2024, however local authorities are allowed to adopt the standard before that date.

The Council chooses not to adopt the standard early and therefore this will not have any impact in 2022/23.

### 3. Critical Judgements in Applying Accounting Policies

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

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

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government. Although the Government published a 3-year Spending Review in October 2021, the Local Government Finance Settlement agreed in February 2022 only covered 2022/23 and proposed changes to the local government funding system were deferred for at least another year. There is also uncertainty as to whether funding for Adult Social Care reforms that were announced in September 2021 will be sufficient to meet costs, together with uncertainties over the impact of the COVID-19 pandemic on the Council's income streams. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. Details of the carrying value of Property, Plant and Equipment are provided in Note 12.
- **Asset Classifications** – The Council has made judgements on whether assets are classified as Investment Property, or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used. Details of the fair value of Investment Property are provided in Note 14.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school

## NOTES TO THE CORE FINANCIAL STATEMENTS

flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

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

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet and are included within Other Land and Buildings as part of Property, Plant and Equipment.

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

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

The table below illustrates the number and type of schools:

Status as at 31 March 2022	Infant	Junior	Primary	Secondary	Other	Total
Academies	7	5	11	6	2	31
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	2	2	13	3	4	24
Foundation Trust	1	1	7	2	1	12
Free Schools			1			1
<b>Grand Total</b>	<b>10</b>	<b>8</b>	<b>38</b>	<b>12</b>	<b>7</b>	<b>75</b>

- **Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant and Equipment), and on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration. The same treatment has been applied to the construction of St Marks all-through school.
- **Highways Infrastructure Assets** - The Council has elected to take up a statutory override relating to the accounting for highways infrastructure assets. The update provides that for all statements of accounts that are currently open up to 2024/25, authorities are not required to report gross book value and accumulated depreciation for infrastructure assets, because the information is unlikely to faithfully

## NOTES TO THE CORE FINANCIAL STATEMENTS

represent the asset position to the users of the financial statements. In accordance with the temporary relief offered by the Update to the Code on infrastructure assets the Note 12(e) does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections. Details of the carrying value of heritage assets that are recognised on the Balance Sheet are provided in Note 13.
- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. None of the Council's lease arrangements are considered to be finance leases. Note 31 provides further details on where the Council is acting as a lessor.
- **Contractual Arrangements** – The Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). None of the Council's contractual arrangements are considered to meet the tests of a lease.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss. Note 17 provides details of the fair value of the fund.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions. Note 21 provides further details on provisions and Note 35 for contingent liabilities.
- **COVID-19 Funding** – the Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses, social care providers and individuals. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement (CIES), other than any element of the funding relating to administration costs. Further details of the COVID-19 grants received, including those where the Council is acting as agent and are not recognised in the CIES, are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment</b>	<p>The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1,214.7M of assets were valued at current value in 2021/22.</p> <p>Property values will vary according to market conditions or, where valued on a depreciated replacement cost basis, land values, construction costs, lifespans and remaining useful economic life will be key variables.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The pressures on the Council's budget makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>A 1% change to the PPE valuations made for the year would change the reported value of PPE by £12.1M.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.9M if the useful lives were reduced by one year.</p>
<b>Investment Property</b>	<p>The Council values its Investment Property (IP) annually and the fair value at 31 March 2022 was £114.1M.</p> <p>Key assumptions in the valuation of investment property include cash flows, market rents and yield.</p> <p>It is uncertain what impact the current economic climate will have on property values and there is a risk of material changes during the next year.</p>	<p>A 1% change to the IP valuations would change the reported value of IP by £1.1M.</p>
<b>NDR Appeals Provision</b>	<p>Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals/challenges against business rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2022, the Council's share of which is £10.2M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the appeals/checks/challenges outstanding on the Valuation Office Agency (VOA) list and projected appeals.</p>	<p>An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the Council's share of the NDR appeals provision by £1.0M.</p>

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2022 and the projected service cost for the year ending 31 March 2022 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
<b>Funded LGPS Benefits Discount rate assumption</b>		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,501.425	1,565.837
% change of present value of total obligation	-2.1%	2.1%
Projected service cost (£M's)	53.751	57.705
Approximate % change in projected service cost	-3.5%	3.6%
<b>Rate of general increase in salaries</b>		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,536.698	1,530.564
% change of present value of total obligation	0.2%	-0.2%
Projected service cost (£M's)	55.700	55.700
Approximate % change in projected service cost	0.0%	0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,562.770	1,504.492
% change of present value of total obligation	1.9%	-1.9%
Projected service cost (£M's)	57.705	53.751
Approximate % change in projected service cost	3.6%	-3.5%
<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,585.774	1,481.488
% change of present value of total obligation	3.4%	-3.4%
Projected service cost (£M's)	57.928	53.528
Approximate % change in projected service cost	4.0%	-3.9%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from September 2021. Prior year comparatives have been updated to reflect the new structure. In the EFA the £46.786M surplus on Net Expenditure Chargeable to the General Fund and HRA Balances, £31.435M deficit for Adjustments between the Funding and Accounting Basis and £15.351M surplus for Net Expenditure in the CIES have not changed as a result of the 2020/21 restatement. In the CIES the £669.330M Expenditure, £684.681M Income and £15.351M Surplus on the Provision of Services have not changed as a result of the 2020/21 restatement.

No other prior period adjustments have been made.

### 6. Other Items of Expenditure and Income

#### Income and Expenditure relating to COVID-19

The accounting arrangements for business rates income mean that the Council's share of the loss on the Collection Fund for rate reliefs introduced by the government in 2020/21 to support particular business sectors during the pandemic, as estimated in January 2021, was charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped. The Council received £25.6M of government grant in 2020/21 to compensate for the actual loss incurred. The net additional government grant for business rates reliefs was carried forward from 2020/21 via the Revenue Grants Reserve – General and transferred to the General Fund in 2021/22 to offset the deficit charged (see Note 9 Earmarked Reserves). A similar arrangement applies for the pandemic related rate reliefs that the government announced in the March 2021 Budget. The Council's share of the loss on the Collection Fund arising from these reliefs, as estimated in January 2022, will be charged to the General Fund in 2022/23. However, the Council received £12.0M of government grant in 2021/22 to compensate for this loss. This material grant income has been shown separately within Taxation and Non-Specific Grant Income on the face of the CIES. The additional S31 business rates reliefs grant over and above what was budgeted for in 2021/22 has been transferred to the Revenue Grants Reserve - General to be used in 2022/23 to offset the business rates deficit that will be charged to the General Fund.

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

The Cost of Services includes expenditure incurred relating to the pandemic. This includes £8.4M on COVID-19 outbreak control and management, including infection control measures and testing in the community, care settings and in schools. £7.9M has been incurred on providing discretionary support to businesses, £4.0M to individuals and £2.2M to care providers. The new hospital discharge scheme implemented in response to the pandemic cost an additional £1.0M, of which £0.8M was funded by the Hampshire, Southampton and Isle of Wight Clinical Commissioning Group. £2.1M of additional placement and staffing costs have been incurred in children's social care in relation to the pandemic. The majority of these costs have been met from specific government grants.

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

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

### 7. Events after the Reporting Period

The statement of accounts was authorised for issue by the Section 151 Officer on the 2 October 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place

## NOTES TO THE CORE FINANCIAL STATEMENTS

before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

One community school has converted to an academy since 31 March 2022. The estimated value of the school that will be removed from the Balance Sheet in 2022/23 is £7.7M.

### 8. Expenditure and Funding Analysis

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

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

#### Adjustments for Capital Purposes

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

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

#### Net Change for the Pensions Adjustments

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

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

#### Other Differences

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2021/22

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children's Social Care	21	5,104	803	5,928
Communities, Culture & Heritage	1,454	1,931	(3,761)	(376)
Customer Service & Transformation	4,496	8,569	(3,661)	9,404
Education	7,454	1,946	(805)	8,595
Environment	(24)	835	69	880
Finance & Capital Assets	3,397	2,254	3,422	9,073
Growth	7,762	2,472	(5,726)	4,508
Health & Adult Social Care	143	5,019	(1,646)	3,516
Housing Revenue Account (HRA)	0	6,514	(518)	5,996
Leader	0	1,348	(275)	1,073
Housing Benefit	0	0	402	402
Other Income & Expenditure	0	0	(1,030)	(1,030)
<b>Other items of expenditure and income:</b>				
Revaluation & Impairment of General Fund Assets	(1,044)	0	0	(1,044)
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(38,693)	0	0	(38,693)
<b>Cost of Services</b>	<b>(15,034)</b>	<b>35,992</b>	<b>(12,726)</b>	<b>8,232</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>5,690</b>	<b>12,067</b>	<b>(10,186)</b>	<b>7,571</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>(9,344)</b>	<b>48,059</b>	<b>(22,912)</b>	<b>15,803</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Adjustments between Funding and Accounting Basis 2020/21 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children's Social Care	19	2,934	709	3,662
Communities, Culture & Heritage	1,197	1,167	(2,305)	59
Customer Service & Transformation	3,318	5,158	(5,083)	3,393
Education	7,609	1,118	(868)	7,859
Environment	(22)	524	(261)	241
Finance & Capital Assets	3,079	1,414	5,337	9,830
Growth	7,448	1,467	(3,905)	5,010
Health & Adult Social Care	157	3,152	(8,059)	(4,750)
Housing Revenue Account (HRA)	0	3,912	(518)	3,394
Leader	0	884	(272)	612
Housing Benefit	0	0	205	205
Other Income & Expenditure	0	0	(2,113)	(2,113)
<b>Other items of expenditure and income:</b>				
Revaluation & Impairment of General Fund Assets	3,493	0	0	3,493
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(42,021)	0	0	(42,021)
<b>Cost of Services</b>	<b>(15,723)</b>	<b>21,730</b>	<b>(17,133)</b>	<b>(11,126)</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	<b>(20,608)</b>	<b>11,063</b>	<b>52,106</b>	<b>42,561</b>
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	<b>(36,331)</b>	<b>32,793</b>	<b>34,973</b>	<b>31,435</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

2020/21 £000	Analysis of income and expenditure by nature	2021/22 £000
	<b>Income</b>	
(113,782)	Revenue from contracts with service recipients	(124,793)
(418,134)	Government grants and contributions	(410,221)
(9,812)	Other service income	(10,810)
(6,170)	Income in relation to investment properties	(6,757)
(1,854)	Interest and investment income	(5,727)
(130,451)	Income from council tax and non-domestic rates	(146,668)
(4,478)	Proceeds from the disposal of non-current assets	(8,946)
<b>(684,681)</b>		<b>(713,922)</b>
	<b>Expenditure</b>	
274,530	Employee benefits expenses	298,830
335,330	Other service expenses	369,818
17,015	Depreciation, amortisation, impairments and revaluations	7,086
16,657	Interest payable and similar charges	14,991
11,063	Net interest expense on the pension defined liability	12,067
1,160	Payments to Housing Capital Receipts Pool	1,160
13,575	Costs from the disposal of non-current assets	57,508
<b>669,330</b>	<b>Total Expenditure</b>	<b>761,460</b>
<b>(15,351)</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>47,538</b>

### c) Analysis of service income

Analysis of Service Income 2021/22	Government Grants and Contributions £000	Revenue from Contracts with Service £000	Other Service Income £000	Total Service Income £000
Children's Social Care	(4,144)	(1,040)	15	(5,169)
Communities, Culture & Heritage	(9,437)	(1,564)	(444)	(11,445)
Customer Service & Transformation	(3,477)	(10,556)	(634)	(14,667)
Education	(168,206)	(1,346)	(119)	(169,671)
Environment	(539)	(4,074)	(188)	(4,801)
Finance & Capital Assets	(9,478)	(1,356)	(562)	(11,396)
Growth	(13,750)	(9,018)	(6,745)	(29,513)
Health & Adult Social Care	(49,531)	(13,616)	0	(63,147)
Housing Revenue Account (HRA)	0	(80,454)	(990)	(81,444)
Leader	(928)	(1,069)	(377)	(2,374)
Housing Benefit	(64,224)	0	0	(64,224)
Other Income & Expenditure	0	(700)	(766)	(1,466)
	<b>(323,714)</b>	<b>(124,793)</b>	<b>(10,810)</b>	<b>(459,317)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2020/21 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children's Social Care	(3,829)	(712)	0	(4,541)
Communities, Culture & Heritage	(5,540)	(771)	(327)	(6,638)
Customer Service & Transformation	(3,801)	(8,850)	(177)	(12,828)
Education	(166,322)	(638)	(101)	(167,061)
Environment	(501)	(3,768)	(135)	(4,404)
Finance & Capital Assets	(5,879)	(1,575)	(709)	(8,163)
Growth	(2,414)	(5,484)	(4,476)	(12,374)
Health & Adult Social Care	(48,553)	(11,858)	0	(60,411)
Housing Revenue Account (HRA)	0	(79,549)	(871)	(80,420)
Leader	(1,041)	(572)	(396)	(2,009)
Housing Benefit	(71,050)	0	0	(71,050)
Other Income & Expenditure	0	(5)	(2,620)	(2,625)
	<b>(308,930)</b>	<b>(113,782)</b>	<b>(9,812)</b>	<b>(432,524)</b>

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

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

	<u>Balance</u> <u>31 March</u> <u>2021</u>	<u>Net</u> <u>Transfers</u> <u>In</u> <u>2021/22</u>	<u>Net</u> <u>Transfers</u> <u>Out</u> <u>2021/22</u>	<u>Balance</u> <u>31 March</u> <u>2022</u>
	£000	£000	£000	£000
<b><u>Earmarked Reserves</u></b>				
<b><u>General Fund</u></b>				
Medium Term Financial Risk Reserve	(59,788)		2,740	(57,048)
Revenue Grant Reserve - General	(35,043)		14,115	(20,928)
Social Care Demand Risk Reserve	(11,612)		11,612	0
Portfolio Carry Forwards Reserve	(6,063)		1,576	(4,487)
PFI Sinking Fund	(4,525)		139	(4,386)
Insurance Reserve	(2,658)		290	(2,368)
On Street Parking	(2,822)		490	(2,332)
Digital Strategy Reserve	(2,233)		2,233	0
General Fund Contributions to Capital	(1,621)		689	(932)
Other Reserves	(4,013)		302	(3,711)
	<b>(130,378)</b>	<b>0</b>	<b>34,186</b>	<b>(96,192)</b>
<b><u>Schools</u></b>				
School Balances	(4,171)	(1,531)		(5,702)
	<b>(134,549)</b>	<b>(1,531)</b>	<b>34,186</b>	<b>(101,894)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The purpose of the main reserves are noted below:

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

As part of the Council's Medium Term Financial Strategy (MTFS) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed. The remaining balances for the Social Care Demand Reserve and the Digital Strategy Reserve have been consolidated into this reserve during 2021/22.

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

This reserve holds grant funding that has been ring-fenced to be used in future years. £14.1M of the balance at 31 March 2022 (£32.1M at 31 March 2021) is for COVID-19 grants being carried forward. Of this, £11.6M (£24.7M at 31 March 2021) is for additional S31 business rates reliefs grant over and above budgeted grant income for 2021/22. The accounting arrangements for business rates mean there are timing differences between the receipt of compensation funding for COVID-19 related business rates reliefs and when the Council's share of the corresponding loss on the Collection Fund is charged to the General Fund. The compensation funding received in 2020/21 and carried forward via this reserve was transferred to the General Fund during 2021/22 to offset the charge made for the deficit on the Collection Fund. The compensation funding received in 2021/22 has been set aside in the reserve to be used to offset the deficit charged to the General Fund in 2022/23 and it does not represent additional resources available to the Council to spend on service provision.

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

The reserve held monies to mitigate the risks of demand pressures within both Children's and Adults Social Care, such as rising client numbers. The remaining balance has been consolidated into the Medium Term Financial Risk Reserve during 2021/22.

### **Portfolio Carry Forward Reserve**

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

### **PFI Sinking Fund**

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

### **Insurance Reserve**

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

### **On Street Parking Reserve**

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

### **Digital Strategy Reserve**

The reserve held monies to be used in the delivery of the Council's digital strategy. The remaining balance has been consolidated into the Medium Term Financial Risk Reserve during 2021/22.

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

This reserve holds monies to finance the capital programme.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

2021/22	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>										
Amortisation of Intangible Fixed Assets	(2,411)							(2,411)	2,411	0
Depreciation and revaluation of Non Current Assets	(26,367)		19,176					(7,191)	7,191	0
Movement on Market Value of Investment Properties	2,383		133					2,516	(2,516)	0
Capital Grants and Contributions Applied	55,784		1,006					56,790	(56,790)	0
Capital Grants and Contributions Unapplied	(12,917)						12,917	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(15,432)							(15,432)	15,432	0
Holiday pay transferred to the Accumulated Absences Account	678							678	(678)	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	4,651							4,651	(4,651)	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(59,227)		(13,088)					(72,315)	72,315	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	19,865		4,390					24,255	(24,255)	0
Statutory Provision for the Financing of Capital Investment	10,705		3702					14,407	(14,407)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,160)				1,160			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	596		3,191					3,787	(3,787)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated in accordance with statute	19,742							19,742	(19,742)	0
Transfers to/(from Major Repairs Reserves			19,517			(19,517)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						22,014		22,014	(22,014)	0
Capital Receipts in Year	1,924		7,022		(8,946)			0	0	0
Non-current Asset Disposals	(53,356)		(4,152)					(57,508)	57,508	0
Capital Receipts Financing of New Capital Expenditure					3,814			3,814	(3,814)	0
Adjustment for repayment of loans					(122)			(122)	122	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(2,158)							(2,158)	2,158	0
	(56,700)	0	40,897	0	(4,094)	2,497	12,917	(4,483)	4,483	0

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 11. Interest Payable and Receivable

<b>Interest Payable and Similar Charges</b>		
<b><u>2020/21</u></b>		<b><u>2021/22</u></b>
<b>£000</b>		<b>£000</b>
7,204	Interest on External Loans	7,011
6,895	PFI Schemes	6,476
291	Payments to HCC in respect of Transferred Debt	277
243	Other	241
2,024	Movement of impairment allowance & debt write-offs	986
<b><u>16,657</u></b>		<b><u>14,991</u></b>

<b>Interest and Investment Income</b>		
<b><u>2020/21</u></b>		<b><u>2021/22</u></b>
<b>£000</b>		<b>£000</b>
(2,042)	Investments	(1,114)
188	(Gain) /Loss on Financial Instruments	(4,613)
<b><u>(1,854)</u></b>		<b><u>(5,727)</u></b>

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

PPE are shown at a current net book value of £1,564M (2020/21 £1,528M), an increase of £36M (2020/21 £66M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2022.

#### a) Depreciation

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

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

#### b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

## NOTES TO THE CORE FINANCIAL STATEMENTS

The movement in PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements. Movement in Infrastructure Assets is shown separately in note e).

### c) Disposals

For 2021/22 there was an overall loss of £48.6M (2020/21 - £9.1M loss) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of the transfer of schools to Academy or Foundation Trust status, offset by a £2.9M gain (2020/21 £1.6M gain) relating to the Housing Revenue Account.

### d) Current Value

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

### e) Infrastructure Assets

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

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

The Net Book Value (NBV) of Infrastructure Assets at 31 March 2022 was £256.9M (£243.6M at 31 March 2021). Movements in the NBV are shown below.

<b>Movement on Infrastructure Assets</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at start of year</b>	<b>227,865</b>	<b>243,647</b>
Additions	21,679	19,451
Depreciation in Year	(5,897)	(6,169)
<b>Balance at End of Year</b>	<b>243,647</b>	<b>256,929</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciling Note for PPE

	<u>2020/21</u>	<u>2021/22</u>
	£000	£000
Infrastructure Assets	243,647	256,929
Other PPE Assets	1,284,269	1,306,864
<b>Balance at End of Year</b>	<b><u>1,527,916</u></b>	<b><u>1,563,793</u></b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movement in Property, Plant &amp; Equipment (PPE)</b>								
	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>PP&amp;E Under Construction</b>	<b>Total</b>	<b>PFI Assets Included in PP&amp;E</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>								
At 1 April 2021	702,965	518,766	58,944	3,897	1,442	53,276	<b>1,339,290</b>	79,439
Adjustment to Previous Year Charges	0	0	0	0	0	0	<b>0</b>	0
	702,965	518,766	58,944	3,897	1,442	53,276	<b>1,339,290</b>	79,439
Additions	26,546	3,698	6,438	0	0	27,295	<b>63,977</b>	0
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	1,580	0	0	0	0	<b>1,580</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,383	(2,860)	0	0	0	0	<b>14,523</b>	(1)
Derecognition-Disposals	(4,152)	(53,022)	(13)	0	0	0	<b>(57,187)</b>	
Reclassified outside PPE	0	0	0	0	0	0	<b>0</b>	
Other Reclassifications	30,452	1,008	0	(1,008)	0	(30,452)	<b>0</b>	
<b>At 31 March 2022</b>	<b>773,194</b>	<b>469,170</b>	<b>65,369</b>	<b>2,889</b>	<b>1,442</b>	<b>50,119</b>	<b>1,362,183</b>	<b>79,438</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2021	(21,311)	(12,086)	(21,275)	(331)	(18)	0	<b>(55,021)</b>	(9,056)
Adjustment to Previous Year Charges							<b>0</b>	0
	(21,311)	(12,086)	(21,275)	(331)	(18)	0	<b>(55,021)</b>	(9,056)
Depreciation in Year	(19,153)	(16,961)	(4,614)	(18)	(14)	0	<b>(40,760)</b>	(3,550)
Impairment in Year	0	0	0	0	0	0	<b>0</b>	
Written out to the Revaluation Reserve	0	14,091	0	0	0	0	<b>14,091</b>	
Written out to the (Surplus)/ Deficit on the Provision of Services	21,311	3,904	0	0	0	0	<b>25,215</b>	1,836
Derecognition-Disposals	0	1,143	13	0	0	0	<b>1,156</b>	
Other Reclassifications	0	0	0	0	0	0	<b>0</b>	
<b>At 31 March 2022</b>	<b>(19,153)</b>	<b>(9,909)</b>	<b>(25,876)</b>	<b>(349)</b>	<b>(32)</b>	<b>0</b>	<b>(55,319)</b>	<b>(10,770)</b>
<b>Net Book Value</b>								
<b>At 31 March 2022</b>	<b>754,041</b>	<b>459,261</b>	<b>39,493</b>	<b>2,540</b>	<b>1,410</b>	<b>50,119</b>	<b>1,306,864</b>	<b>68,668</b>
<b>At 31 March 2021</b>	<b>681,654</b>	<b>506,680</b>	<b>37,669</b>	<b>3,566</b>	<b>1,424</b>	<b>53,276</b>	<b>1,284,269</b>	<b>70,383</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried at Historic Cost</b>			39,493	256,929	2,540		50,119	<b>349,081</b>
<b>Valued at Fair Value in:</b>								
2021/22	754,041	337,260				0		<b>1,091,301</b>
2020/21		7,990				68		<b>8,058</b>
2019/20		70,482				1,110		<b>71,592</b>
2018/19		32,144				232		<b>32,376</b>
2017/18		11,358						<b>11,358</b>
Deminimus		27						<b>27</b>
<b>Net Book Value as at 31 March 2022</b>	<b>754,041</b>	<b>459,261</b>	<b>39,493</b>	<b>256,929</b>	<b>2,540</b>	<b>1,410</b>	<b>50,119</b>	<b>1,563,793</b>

<b>Movement in Property, Plant &amp; Equipment (PPE) 2020/21</b>								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
At 1 April 2020	655,993	542,571	50,945	3,897	1,442	40,921	<b>1,295,769</b>	83,401
Adjustment to Previous Year Charges	0	0	0	0	0	0	<b>0</b>	(1,906)
	655,993	542,571	50,945	3,897	1,442	40,921	<b>1,295,769</b>	81,495
Additions	18,528	2,637	8,013	0	0	22,528	<b>51,706</b>	2
Donations	0	0	0	0	0	0	<b>0</b>	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	(7,413)	0	0	0	0	<b>(7,413)</b>	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	20,932	(7,824)	0	0	0	0	<b>13,108</b>	(2,058)
Derecognition-Disposals	(2,661)	(11,205)	(14)	0	0	0	<b>(13,880)</b>	
Derecognitions- Fully Depreciated	0	0	0	0	0	0	<b>0</b>	
Reclassified outside PPE	0	0	0	0	0	0	<b>0</b>	
Other Reclassifications	10,173	0	0	0	0	(10,173)	<b>0</b>	
<b>At 31 March 2021</b>	<b>702,965</b>	<b>518,766</b>	<b>58,944</b>	<b>3,897</b>	<b>1,442</b>	<b>53,276</b>	<b>1,339,290</b>	<b>79,439</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2020	(21,089)	(22,930)	(17,367)	(314)	(5)	0	<b>(61,705)</b>	(9,282)
Adjustment to Previous Year Charges		(1)					<b>(1)</b>	1,940
	(21,089)	(22,931)	(17,367)	(314)	(5)	0	<b>(61,706)</b>	(7,342)
Depreciation in Year	(21,311)	(16,297)	(3,922)	(17)	(13)	0	<b>(41,560)</b>	(3,560)
Impairment in Year	0	0	0	0	0	0	<b>0</b>	
Written out to the Revaluation Reserve	0	22,520	0	0	0	0	<b>22,520</b>	
Written out to the (Surplus)/ Deficit on the Provision of Services	21,089	4,330	0	0	0	0	<b>25,419</b>	1,846
Derecognition-Disposals	0	292	14	0	0	0	<b>306</b>	0
<b>At 31 March 2021</b>	<b>(21,311)</b>	<b>(12,086)</b>	<b>(21,275)</b>	<b>(331)</b>	<b>(18)</b>	<b>0</b>	<b>(55,021)</b>	<b>(9,056)</b>
<b>Net Book Value</b>								
<b>At 31 March 2021</b>	<b>681,654</b>	<b>506,680</b>	<b>37,669</b>	<b>3,566</b>	<b>1,424</b>	<b>53,276</b>	<b>1,284,269</b>	<b>70,383</b>
<b>At 31 March 2020</b>	<b>634,904</b>	<b>519,641</b>	<b>33,578</b>	<b>3,583</b>	<b>1,437</b>	<b>40,921</b>	<b>1,234,064</b>	<b>74,119</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capital Commitments

At 31 March 2022, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23 and future years budgeted to cost £51.1M. Similar commitments at 31 March 2021 were £64.4M. The major commitments are:

	<u>2020/21</u>	<u>2021/22</u>
	<u>£000</u>	<u>£000</u>
HRA - Estate Regeneration & New Build	198	0
HRA - Supporting Communities	3,705	153
HRA - Improving Quality of Homes	503	970
HRA - Supporting Independent Living	2,874	4,813
HRA - Making Homes Safe	20,717	20,819
HRA - Making Homes Energy Efficient	2,523	2,645
Sholing Technical College Renovation	760	1,015
Southampton All Through School	29,551	8,424
Desktop Refresh	730	271
Warm Homes	116	0
Electric & Fleet Vehicles	1,566	2,282
SEND School Review	0	667
Public Sector Decarbonisation Scheme	0	429
Heritage Asset Investment	0	1,505
Outdoor Sports Centre Improvements	0	947
Future Transport Zone	0	3,252
Transforming Cities Fund	0	357
Other Various Minor Commitments	1,154	2,551
<b>Total</b>	<b><u>64,397</u></b>	<b><u>51,100</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13. Heritage Assets

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

<b>Reconciliation of the Carrying Value of Heritage Assets Held by the Council</b>			
	<b>Works of Art</b>	<b>Historic Buildings and Ancient Monuments</b>	<b>Total Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation</b>			
01 April 2020	190,000	278	190,278
Additions			0
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
<b>31 March 2021</b>	<b>190,000</b>	<b>278</b>	<b>190,278</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2020	0	(29)	(29)
<b>31 March 2021</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2021</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>31 March 2020</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>
<b>Cost or Valuation</b>			
01 April 2021	190,000	278	190,278
Additions		1,025	1,025
Adj for depreciation previously written out			0
<b>31 March 2022</b>	<b>190,000</b>	<b>1,303</b>	<b>191,303</b>
<b>Accumulated Depreciation and Impairment</b>			
01 April 2021	0	(29)	(29)
Depreciation		0	0
<b>31 March 2022</b>	<b>0</b>	<b>(29)</b>	<b>(29)</b>
<b>Net Book Value</b>			
<b>31 March 2022</b>	<b>190,000</b>	<b>1,274</b>	<b>191,274</b>
<b>31 March 2021</b>	<b>190,000</b>	<b>249</b>	<b>190,249</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 14. Investment Properties

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

<u>2020/21</u>		<u>2021/22</u>
£000		£000
(6,170)	Rental Income	(6,757)
<u>470</u>	Operating Expenditure	<u>507</u>
<b>(5,700)</b>	<b>Net (Income) / Expenditure</b>	<b>(6,250)</b>
6,309	Net (Gains) / Losses from fair value adjustments	(2,516)
<u><b>609</b></u>	<b>Total Net (Income) / Expenditure</b>	<u><b>(8,766)</b></u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	<u>2020/21</u>	<u>2021/22</u>
	£000	£000
<b>Balance at start of year</b>	<b>118,145</b>	<b>113,098</b>
Additions:		
Purchases	1,263	0
Subsequent Expenditure	0	0
Disposals	(1)	(1,478)
Net gains / (losses) from fair value adjustments	(6,309)	2,516
Transfers		
(to) / from Property, Plant and Equipment	0	0
<b>Balance at End of Year</b>	<u><b>113,098</b></u>	<u><b>114,136</b></u>

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or

## NOTES TO THE CORE FINANCIAL STATEMENTS

break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

### 15. Intangible Assets

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

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

	<u>Purchased Software</u>	
	<u>31 March</u> <u>2021</u>	<u>31 March</u> <u>2022</u>
	<u>£000</u>	<u>£000</u>
Gross carrying amount	11,672	15,121
Derecognition of Assets fully amortised	0	(766)
	<u>11,672</u>	<u>14,355</u>
Accumulated amortisation	<u>(4,627)</u>	<u>(5,635)</u>
<b>Net Carrying Amount at Start of the Year</b>	<b>7,045</b>	<b>8,720</b>
Purchases	3,449	2,499
Amortisation for the period	(1,774)	(2,411)
<b>Net Carrying Amount at End of the Year</b>	<b><u>8,720</u></b>	<b><u>8,808</u></b>

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

As at 31 March 2022 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 17. Financial Instruments

#### a) Financial Instruments Classifications

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

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

#### Financial Liabilities

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

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

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

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

#### Financial Assets

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

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

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

#### b) Financial Instruments Balances

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



## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Financial Liabilities</b>	<b>Long Term</b>		<b>Short Term</b>		<b>Total</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(213,847)	(239,197)	(27,750)	(16,100)	(241,597)	(255,297)
- Accrued interest			(667)	(727)	(667)	(727)
<b>Total Borrowing</b>	<b>(213,847)</b>	<b>(239,197)</b>	<b>(28,417)</b>	<b>(16,827)</b>	<b>(242,264)</b>	<b>(256,024)</b>
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(2,475)	(6,654)	(2,475)	(6,654)
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>(2,475)</b>	<b>(6,654)</b>	<b>(2,475)</b>	<b>(6,654)</b>
<i>Liabilities at amortised cost:</i>						
- PFI arrangements	(47,519)	(44,375)			(47,519)	(44,375)
- Other long-term creditors	(37)	(37)			(37)	(37)
<b>Total Long-term Creditors</b>	<b>(47,556)</b>	<b>(44,412)</b>	<b>0</b>	<b>0</b>	<b>(47,556)</b>	<b>(44,412)</b>
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,446)	(3,144)	(3,446)	(3,144)
- Trade payables			(30,048)	(31,506)	(30,048)	(31,506)
<b>Included in Creditors</b>	<b>0</b>	<b>0</b>	<b>(33,494)</b>	<b>(34,650)</b>	<b>(33,494)</b>	<b>(34,650)</b>
<b>Total Financial Liabilities</b>	<b>(261,403)</b>	<b>(283,609)</b>	<b>(64,386)</b>	<b>(58,131)</b>	<b>(325,789)</b>	<b>(341,740)</b>

<b>Financial Assets</b>	<b>Long Term</b>		<b>Short Term</b>		<b>Total</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>At amortised cost</i>						
- Principal	1,029	1,028	2,000	24,410	3,029	25,438
- Accrued interest			142	53	142	53
<i>At fair value through profit &amp; loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	292	253	292	253
- Fair value adjustments	(719)	3,893			(719)	3,893
<b>Total Investments</b>	<b>27,310</b>	<b>31,921</b>	<b>2,434</b>	<b>24,716</b>	<b>29,744</b>	<b>56,637</b>
<i>Loans and Receivables</i>						
<i>At amortised cost</i>						
- Principal			772	772	772	772
<i>At fair value through profit &amp; loss</i>						
- Principal			29,358	53,730	29,358	53,730
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>30,130</b>	<b>54,502</b>	<b>30,130</b>	<b>54,502</b>
<i>At amortised costs</i>						
- Trade receivables			22,993	28,616	22,993	28,616
- Loans made for service purposes	3,625	3,495	1	0	3,626	3,495
<b>Included in Debtors</b>	<b>3,625</b>	<b>3,495</b>	<b>22,994</b>	<b>28,616</b>	<b>26,619</b>	<b>32,111</b>
<b>Total Financial Assets</b>	<b>30,935</b>	<b>35,416</b>	<b>55,558</b>	<b>107,834</b>	<b>86,493</b>	<b>143,250</b>

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This includes accrued interest on long term liabilities and investments that is payable/receivable in 2022/23.

### c) Offsetting Financial Assets and Liabilities

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

arrangement or similar agreement.

### d) Financial Instruments – Gains and Losses

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

	2020/21	2021/22			
		Financial Liabilities	Financial Assets		Total £000
	Total £000	Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	14,708	14,043			14,043
Gains/losses on derecognition	(75)	(38)			(38)
Impairment Losses	2,024		986		986
<b>Interest Payable and Similar Charges</b>	<b>16,657</b>	<b>14,005</b>	<b>986</b>	<b>0</b>	<b>14,991</b>
Interest income	(2,042)		(116)	(998)	(1,114)
Gains/losses on derecognition	188			(4,613)	(4,613)
<b>Interest and Investment Income</b>	<b>(1,854)</b>	<b>0</b>	<b>(116)</b>	<b>(5,611)</b>	<b>(5,727)</b>
<b>Net Gain / (Loss) for the Year</b>	<b>14,803</b>	<b>14,005</b>	<b>870</b>	<b>(5,611)</b>	<b>9,264</b>

### e) Financial Instruments – Fair Values

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

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2022.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>Balance Sheet</u> <u>31 March</u> <u>2021</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2021</u> <u>£000</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u> <u>31 March</u> <u>2022</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2022</u> <u>£000</u>
<b><u>Financial Liabilities held at amortised cost</u></b>					
(222,597)	(279,635)	Public Works Loans	2	(246,297)	(264,856)
(9,000)	(12,964)	LOBO Loans	2	(9,000)	(11,746)
(50,965)	(84,158)	PFI/Finance Lease Liabilities	2	(47,519)	(70,211)
<b>(282,562)</b>	<b>(376,757)</b>			<b>(302,816)</b>	<b>(346,813)</b>
<b><u>Liabilities for which Fair Value is not disclosed*</u></b>					
(37)		Other Long Term Creditors		(37)	
(10,667)		Short Term borrowing		(727)	
(2,475)		Bank Overdraft		(6,654)	
(30,048)		Trade Payables (Creditors)		(31,506)	
<b>(43,227)</b>				<b>(38,924)</b>	
<b>(325,789)</b>		<b>Total Financial Liabilities</b>		<b>(341,740)</b>	

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

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

<u>Balance Sheet</u> <u>31 March</u> <u>2021</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2021</u> <u>£000</u>		<u>Fair Value</u>	<u>Balance Sheet</u> <u>31 March</u> <u>2022</u> <u>£000</u>	<u>Fair Value</u> <u>31 March</u> <u>2022</u> <u>£000</u>
<b><u>Financial Assets held at Fair Value through P&amp;L</u></b>					
29,358	29,358	Money Market Funds	1	53,730	53,730
26,281	26,281	Property Funds	2	30,894	30,894
<b>55,639</b>	<b>55,639</b>			<b>84,624</b>	<b>84,624</b>
<b><u>Financial Assets held at Amortised Costs</u></b>					
3,009	3,363	Corporate, Covered and Government Bonds	1	1,008	1,160
<b>3,009</b>	<b>3,363</b>			<b>1,008</b>	<b>1,160</b>
<b><u>Assets for which Fair Value is not disclosed**</u></b>					
<i>Recorded on balance sheet as:</i>					
3,625		Long Term Debtors		3,495	
434		Short Term investments		24,715	
20		Shares in unlisted companies		20	
772		Cash and Cash Equivalents		772	
22,993		Trade Receivables (Debtors)		28,616	
1		Other Debtors		0	
<b>27,845</b>				<b>57,618</b>	
<b>86,493</b>		<b>Total Financial Assets</b>		<b>143,250</b>	

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### f) Financial Instruments – Risks

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

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

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

The main risks covered are:

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

### g) Credit Risk

#### Treasury Investments

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

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

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £111.1M (2020/21 £59.9M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2022 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 15 February 2021. The Treasury Strategy can be seen as Item 34 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2021/22 to 2024/25](#)

## NOTES TO THE CORE FINANCIAL STATEMENTS

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2022 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2021	2022	2021	2022
	£000	£000	£000	£000
AAA	1,009	1,008	2,142	52
AA+			0	0
AA			0	24,410
AA-			12,000	0
A+			18,028	46,750
A			102	7,753
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	26,281	30,893	292	253
<b>Total Investments</b>	<b>27,310</b>	<b>31,921</b>	<b>32,564</b>	<b>79,218</b>

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

The above analysis shows that all deposits outstanding as at 31 March 2022 met the Council's minimum credit rating criteria of A- or above.

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2022 (and 31 March 2021) falls below the Council's de-minimis level of £0.01M so no offset was made.

### Trade Receivables

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

<b>Trade Debtors and Impairment Allowance</b>		
	<b>Outstanding 31 March 2021 £000</b>	<b>Outstanding 31 March 2022 £000</b>
Trade Debtors	22,993	<b>28,616</b>
Trade Debtors Impairment Allowance	(7,484)	<b>(7,579)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

- Adult Social Care clients (£1.627M)
- Housing tenants (£5.338M)
- Other service recipients (£0.614M)

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

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

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

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b><u>Trade debtors, analysed by age</u></b>	
8,515	Less than two months	7,732
5,098	Two to six months	6,963
4,605	Six months to one year	4,631
4,775	More than one year	9,290
<u>22,993</u>		<u>28,616</u>

### h) Liquidity Risk

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

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

The maturity analysis of the principal borrowed as at 31 March 2022 was as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Outstanding</u> 31 March 2021	<u>% of Total</u> Portfolio	<b>Total Financial Liabilities</b>	<u>Outstanding</u> 31 March 2022	<u>% of Total</u> Portfolio
<b>£000</b>	<b>%</b>	<b>Source of Loan</b>	<b>£000</b>	<b>%</b>
(222,597)	68	Public Works Loan Board	(246,297)	72
(19,000)	6	Other Financial Institutions (borrowing)	(9,000)	3
(30,048)	9	Trade Payables	(31,506)	9
(54,144)	17	Other Financial Institutions	(54,937)	16
<b>(325,789)</b>	<b>100</b>		<b>(341,740)</b>	<b>100</b>
<b>Analysis of Loans by Maturity</b>				
(55,387)	17	Less than 1 Year	(49,130)	14
(9,143)	3	Between 1 and 2 years	(10,394)	3
(28,755)	9	Between 2 and 5 years	(31,972)	9
(52,131)	16	Between 5 and 10 years	(58,089)	17
(42,526)	13	Between 10 and 20 years	(43,308)	13
(124,600)	38	Between 20 and 40 years	(139,847)	41
(4,247)	1	Over 40	0	0
(9,000)	3	Uncertain Date**	(9,000)	3
<b>(325,789)</b>	<b>100</b>		<b>(341,740)</b>	<b>100</b>

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

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

<b>Loans and Other Long term Liabilities Outstanding (Nominal Value)</b>		
	<u>Outstanding</u> 31 March 2021	<u>Outstanding</u> 31 March 2022
<b>Source</b>	<b>£000</b>	<b>£000</b>
Public Works Loan Board	(222,597)	(246,297)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(10,000)	0
PFI Liabilities	(50,965)	(47,519)
Other long-term Creditors	(37)	(37)
<b>Total</b>	<b>(292,599)</b>	<b>(302,853)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### i) Market Risk

#### Interest Rate Risk

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

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

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2022 £268.1M (140%) (2020/21 £280.1M (120%) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £76.0M (2020/21 £47.4M) net investments exposed to variable rates.

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

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

2020/21		2021/22
<b>£000</b>		<b>£000</b>
1,750	Increase in interest payable on variable rate borrowings	1,447
(500)	Increase in interest payable on variable rate investments	(500)
1,281	Decrease in fair value of investments held at FVPL (assumes 5%)	1,462
<u>2,531</u>	<b>Impact on the Provision of Services (Surplus) / Deficit</b>	<u>2,409</u>
619	Share of overall impact debited/credited to HRA	267
(62,467)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost <i>(no impact on Comprehensive Income and Expenditure)</i>	(48,474)

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

The Council has £9M (2020: £9M) of “Lender’s option, borrower’s option” (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

#### Price Risk

The market prices of the Council’s fixed rate bond investments and its units in pooled bond funds are



## NOTES TO THE CORE FINANCIAL STATEMENTS

governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk as described below.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2022 the Council had £27M (2020/21 £27M) invested in the Local Authority Property Fund which was valued with an increase in fair value of £4.613M (2020/21 £0.188M reduction), taking the fair value from £26.28M to £30.89M. A 5% fall in commercial property prices would result in a £1.46M (2020/21 £1.28M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

### 18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2022.

<u>31 March</u> <u>2021</u> £000		<u>31 March</u> <u>2022</u> £000
3,625	Housing Improvement Loans	3,495
0	Other	0
<u>3,625</u>		<u>3,495</u>

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2022.

<u>31 March</u> <u>2021</u> £000	<u>Debtors</u>	<u>31 March</u> <u>2022</u> £000
28,502	Central Government	8,948
4,332	Other Local Authorities	3,139
5,682	NHS Bodies	3,882
60,503	Other Entities and Individuals	65,975
(27,495)	Debtors Impairment Allowance	(28,804)
	Public Corporations and Trading Funds	2
<u>71,524</u>	<b>Total Debtors</b>	<u>53,142</u>

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

### 19. Cash and Cash Equivalents

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

Although the balance shown below suggests that the bank accounts were overdrawn by £6.7M (2020/21 £2.5M), the Council's actual bank account balance at the Bank was a credit balance of £0.7M at 31 March 2022 (£2.6M at 31 March 2021). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go

## NOTES TO THE CORE FINANCIAL STATEMENTS

overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

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

<b><u>31 March</u></b> <b><u>2021</u></b> <b><u>£000</u></b>		<b><u>31 March</u></b> <b><u>2022</u></b> <b><u>£000</u></b>
(2,475)	Bank Accounts	(6,654)
(2,475)		(6,654)
29,358	Money Market Funds	53,730
670	Call Accounts	670
102	Petty Cash	102
30,130		54,502
<b><u>27,655</u></b>		<b><u>47,848</u></b>

## 20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2022.

The creditors balance with central government at 31 March 2022 includes £15.8M for Council Tax Energy Rebate Scheme grants, £13.5M for COVID grants to support businesses (£26.0M at 31 March 2021) and £27.5M for S31 business rates reliefs grants (£25.7M at 31 March 2021).

<b><u>31 March</u></b> <b><u>2021</u></b> <b><u>£000</u></b>	<b><u>Creditors</u></b>	<b><u>31 March</u></b> <b><u>2022</u></b> <b><u>£000</u></b>
64,265	Central Government	75,295
3,003	Other Local Authorities	3,888
2,231	NHS Bodies	4,846
56,775	Other Entities and Individuals	56,457
<b><u>126,274</u></b>	<b>Total Creditors</b>	<b><u>140,486</u></b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21. Provisions

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

	<u>Balance at 31</u> <u>March 2021</u>	<u>Additional Provisions</u> <u>Made in Year</u>	<u>Amounts Used</u> <u>in Year</u>	<u>Balance at 31</u> <u>March 2022</u>
	£000	£000	£000	£000
<u>General Fund</u>				
NDR Appeals Provision	8,710	15,217	(13,742)	10,185
General Insurance Funds	2,609	948	(543)	3,014
Other Provisions	0	325		325
<b>Total</b>	<b>11,319</b>	<b>16,490</b>	<b>(14,285)</b>	<b>13,524</b>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u> <u>Due within 1</u> <u>Year</u>	<u>Due between 2</u> <u>to 5 years</u>	<u>Over 5 years</u>	<u>Total Long</u> <u>Term</u>	<u>Balance at 31</u> <u>March 2022</u>
	£000	£000	£000	£000	£000
<u>General Fund</u>					
NDR Appeals Provision	6,180	4,005	0	4,005	10,185
General Insurance Funds	632	2,382	0	2,382	3,014
Other Provisions	325	0	0	0	325
<b>Total</b>	<b>7,137</b>	<b>6,387</b>	<b>0</b>	<b>6,387</b>	<b>13,524</b>

#### a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years and other Rateable Value list amendments. Therefore, the Council's share of the provision (49% in both 2021/22 and 2020/21) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2022.

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

#### b) Insurance Provisions

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

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2022 amounted to £3.0M (2020/21 £2.6M). Additionally, a further £1.9M (2020/21 £2.4M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts.

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

### c) Other Provisions

All other provisions are not material.

## 22. Unusable Reserves

### a) Revaluation Reserve

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

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

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

<u>2020/21</u> £000		<u>2021/22</u> £000
(411,319)	Balance Brought Forward	(414,815)
(30,888)	Upward revaluations of assets	(19,909)
15,781	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	4,238
(15,107)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,671)
5,591	Difference between fair value depreciation and historical cost depreciation	6,102
6,020	Accumulated Revaluations on Disposals	15,779
<u>(414,815)</u>	<b>Balance Carried Forward</b>	<u>(408,605)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Capital Adjustment Account (CAA)

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

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

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

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

<u>2020/21</u> £000		<u>2021/22</u> £000
(861,080)	Balance Brought Forward	(922,500)
	<b>Capital Financing</b>	
(16,829)	Usable Capital Receipts	(3,814)
(32,918)	Capital Grants & Contributions	(56,790)
(19,056)	HRA Financing from the Major Repairs Reserve	(22,014)
(7,847)	Revenue Contributions	(3,787)
	<b>Other Movements</b>	
6,081	Revenue Expenditure Funded from Capital under Statute	15,432
	Net gains/losses from fair value adjustments on Investment	
6,309	Properties	(2,516)
1,774	Amortisation of Intangibles	2,411
8,931	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	7,191
13,575	Disposals	57,508
(5,591)	Historic Cost Depreciation Adjustment	(6,102)
(6,020)	Accumulated Revaluations on Disposals	(15,779)
(9,907)	Provision for the Financing of Capital Investment	(14,407)
78	Other adjustments	122
<u>(922,500)</u>	<b>Balance Carried Forward</b>	<u>(965,045)</u>

### c) Pensions Reserve

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

<u>2020/21</u>		<u>2021/22</u>
<u>£000</u>		<u>£000</u>
492,146	Balance Brought Forward	586,719
61,780	Remeasurement of the net defined benefit liability/(asset)	(211,034)
55,505	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	72,315
(22,712)	Employer's pension contributions and direct payments to pensioners payable in the year.	(24,255)
<b><u>586,719</u></b>	<b>Balance Carried Forward</b>	<b><u>423,745</u></b>

### d) Collection Fund Adjustment Account

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

The large differences for business rates arise from timing differences between the additional business rates reliefs given to support particular business sectors during the pandemic and when the income foregone is reflected in the General Fund.

<u>2020/21</u>		<u>2021/22</u>
<u>£000</u>		<u>£000</u>
1,159	Balance Brought Forward	25,790
(1,230)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(3,336)
25,861	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(16,406)
<b><u>25,790</u></b>	<b>Balance Carried Forward</b>	<b><u>6,048</u></b>

### e) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences for staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. For 2020/21 and 2021/22

## NOTES TO THE CORE FINANCIAL STATEMENTS

annual leave carried forward has been accrued for non-teaching as well as teaching staff because non-teaching staff were permitted to carry more leave forward due to the pandemic.

<u>2020/21</u>		<u>2021/22</u>
<u>£000</u>		<u>£000</u>
1,949	Balance Brought Forward	3,905
(1,949)	Settlement or cancellation of accrual made at the end of the preceding year	(3,905)
<u>3,905</u>	Amounts accrued at the end of the current year	<u>3,227</u>
<u><b>3,905</b></u>	<b>Balance Carried Forward</b>	<u><b>3,227</b></u>

### f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account was created in 2020/21 for that purpose. The in-year deficit for 2021/22 has been transferred into that account.

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

<u>2020/21</u>		<u>2021/22</u>
<u>£000</u>		<u>£000</u>
0	Balance Brought Forward	8,934
7,420	Transfer of the opening Dedicated Schools Grant deficit from earmarked revenue reserves	
1,514	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	2,158
<u>8,934</u>	<b>Balance Carried Forward</b>	<u>11,092</u>

### g) Pooled Fund Adjustment Account

This account holds fair value gains and losses on pooled investment funds (non-capital) which are not recognised in the General Fund in accordance with a government issued statutory override. The statutory override is in place until 31 March 2023. The government is to consult on a possible extension prior to the existing provision coming to an end.

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2020/21</u>		<u>2021/22</u>
£000		£000
531	Balance Brought Forward	719
<u>531</u>		<u>719</u>
188	(Upward) Downward Revaluation of Investments Downward Revaluation of Investments not charged to the Surplus/ Deficit on the Provision of Service	(4,613)
<u>719</u>	<b>Balance Carried Forward</b>	<u>(3,894)</u>

### 23. Notes to Cash Flow Statement

#### a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

<u>2020/21</u>		<u>2021/22</u>
£000		£000
<b>15,351</b>	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>(47,538)</b>
	<b>Adjust net surplus or deficit on the provision of services for non cash movements</b>	
47,455	Depreciation	46,929
(38,524)	Movement on assets charged to revenue	(39,738)
1,774	Amortisation	2,411
188	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	(4,613)
(269)	Increase/(Decrease) in Interest Creditors	61
59,554	Increase/(Decrease) in Creditors	9,039
6	(Increase)/Decrease in Interest and Dividend Debtors	130
(5,921)	(Increase)/Decrease in Debtors	496
(184)	(Increase)/Decrease in Inventories	182
32,793	Pension Liability	48,060
(3,970)	Contributions to/(from) Provisions	2,205
13,575	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	57,508
6,309	Movement in Investment Property Values	(2,516)
18	Other Items	(8)
<u>112,804</u>		<u>120,146</u>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(31,037)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(43,873)
(4,479)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(8,946)
(78)	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(122)
(66)	Allowable deduction arising from disposal	(101)
<u>(35,660)</u>		<u>(53,042)</u>
<u>92,495</u>	<b>Net Cash Flows from Operating Activities</b>	<u>19,566</u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Operating Activities – Interest

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b>Operating activities within the cashflow statement include the following cash flows relating to interest</b>	
1,860	Interest Received	5,856
(14,902)	Interest Paid	(13,945)

### c) Cash Flows from Investing Activities

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b>Cash Flows from Investing Activities</b>	
(80,346)	Property, Plant and Equipment Purchased	(84,767)
(208,020)	Purchase of short term investments	(345,210)
4,545	Proceeds from the sale of property plant and equipment, investment property and intangible assets	9,047
208,020	Proceeds from short-term and long-term investments	322,800
45,148	Other Receipts from Investing Activities - Capital Grants & Contributions Received	68,035
<u>(30,653)</u>	<b>Total Cash Flows from Investing Activities</b>	<u>(30,095)</u>

### d) Cash Flows from Financing Activities

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b>Cash Flows from Financing Activities</b>	
40,000	Cash receipts of short and long term borrowing	33,000
(22,371)	Billing Authorities - Council Tax and NNDR adjustments	20,832
(75,642)	Repayment of Short-Term and Long-Term Borrowing	(19,664)
(3,039)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,446)
<u>(61,052)</u>	<b>Total Cash Flows from Financing Activities</b>	<u>30,722</u>

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

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b>Makeup of Cash and Cash Equivalents</b>	
102	Cash and Bank Balances	102
30,028	Cash Investments - regarded as cash equivalents	54,400
(2,475)	Bank Overdraft	(6,654)
<u>27,655</u>		<u>47,848</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### f) Changes in liabilities

	<u>1 April 2021</u>	<u>Cash Flows</u>	<u>Non-Cash Movements</u>	<u>31 March 2022</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Long-term borrowing	213,847	33,000	(7,650)	239,197
Short-term borrowing	28,417	(19,967)	8,377	16,827
Other deferred liabilities	13,462	(364)		13,098
Finance leases and PFI contracts	50,965	(3,446)		47,519
<b>Total</b>	<b>306,691</b>	<b>9,223</b>	<b>727</b>	<b>316,641</b>

## 24. Agency Services

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

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

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

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire and Isle of Wight Fire & Rescue Authority (1%) (2020/21 Southampton City Council 49%, Government 50% and Hampshire Fire & Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and H&IOWFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

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

During 2021/22 the Council has made grant payments to businesses, adult social care providers and members of the community on behalf of the government. The Council is acting as an agent in making these disbursements and the income and expenditure to which they relate are not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council which has been disbursed is provided in Note 37.

## 25. Members' Allowances

The total of members' allowances paid in was £0.816M (2020/21 was £0.790M) as detailed in the table below.

	<u>31 March 2021</u>	<u>31 March 2022</u>
	<u>£000</u>	<u>£000</u>
Basic Allowances	623	626
Responsibility & Other Allowances	162	182
Expenses	5	8
<b>Total</b>	<b>790</b>	<b>816</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 26. Officers' Remuneration

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

#### a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2020/21.

<b>Band £</b>	<b>Number of Employees</b>					
	<b>2020/21</b>			<b>2021/22</b>		
	<b>Schools</b>	<b>Other</b>	<b>Total</b>	<b>Schools</b>	<b>Other</b>	<b>Total</b>
50,000 - 54,999	65	95	160	59	112	171
55,000 - 59,999	45	61	106	51	77	128
60,000 - 64,999	18	27	45	16	27	43
65,000 - 69,999	26	14	40	23	19	42
70,000 - 74,999	19	4	23	18	11	29
75,000 - 79,999	6	4	10	10	7	17
80,000 - 84,999	4	7	11	4	7	11
85,000 - 89,999	1	0	1	2	5	7
90,000 - 94,999	2	3	5	3	5	8
95,000 - 99,999	0	1	1	1	0	1
100,000 - 104,999	1	2	3	0	1	1
105,000 - 109,999	2	2	4	3	3	6
110,000 - 114,999	0	1	1	0	0	0
115,000 - 119,999	0	1	1	0	0	0
120,000 - 124,999	1	0	1	1	1	2
125,000 - 129,999	0	0	0	0	1	1
130,000 - 134,999	1	3	4	1	0	1
135,000 - 139,999	0	1	1	0	0	0
140,000 - 144,999	0	0	0	0	3	3
145,000 - 149,999	0	0	0	0	1	1
150,000 - 154,999	0	1	1	0	0	0
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0
170,000 - 174,999	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	1	1	0	0	0
185,000 - 189,999	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0
200,000 +	0	0	0	0	1	1
	<b>191</b>	<b>228</b>	<b>419</b>	<b>192</b>	<b>281</b>	<b>473</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

**2021/22**

<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 2021/22</b>	<b>Pensions contributions (see Note 4)</b>	<b>Total Remuneration including pension contributions 2021/22</b>
	£	£	£	£	£	£	£
<b>Chief Executive</b> - Sandy Hopkins until 28/02/2022	192,469		188,239		380,708	25,695	406,403
<b>Acting Chief Executive</b> - Mike Harris from 01/03/2022	13,407				13,407	2,440	15,847
<b>Executive Director - Business Services (Deputy Chief Executive)</b> - Mike Harris (Note 2) until 28/02/2022	128,515				128,515	23,390	151,905
<b>Executive Director - Communities, Culture &amp; Homes</b> - Mary D'Arcy	140,198				140,198	25,516	165,714
<b>Executive Director - Place</b> - Kate Martin until 31/03/2022	129,688				129,688	23,801	153,489
<b>Executive Director - Wellbeing (Children &amp; Learning)</b> - Robert Henderson	150,000				150,000	27,300	177,300
<b>Service Director Legal &amp; Governance</b> - Richard Ivory	120,631	648			121,279		121,279
<b>Executive Director - Finance &amp; Commercialisation</b> - John Harrison	140,198				140,198		140,198
	<b>1,015,106</b>	<b>648</b>	<b>188,239</b>	<b>-</b>	<b>1,203,993</b>	<b>128,142</b>	<b>1,332,135</b>

**Note 1**

Between 01/04/2021 and 31/03/2022 the Executive Director - Wellbeing (Health & Adults DASS) role was undertaken by Guy van Dichele via an external company. Payment for this period was £241,257 excluding VAT.

**Note 2**

Between 01/03/2022 and 31/03/2022 the Business Services role was undertaken by James Strachan.

**Note 3**

There were no bonuses paid.

**Note 4**

In 2021/22 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

2020/21

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

**Note 1**

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

**Note 2**

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

**Note 3**

There were no bonuses paid.

**Note 4**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £1.0M (2020/21 £0.4M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

<u>Exit Package Cost Band</u> (including special payments)	<u>Number of compulsory Redundancies</u>		<u>Number of Other Departures agreed</u>		<u>Total Number of packages by Cost Band</u>		<u>Total Cost of Exit Packages in each Band</u>	
	<u>2020/21</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2021/22</u>
							£000	£000
£0-£20,000	4	8	14	16	18	24	170	171
£20,001-£40,000	1	0	4	4	5	4	136	118
£40,001-£60,000	0	2	0	1	0	3	0	146
£60,001-£80,000	0	1	2	1	2	2	137	126
£80,001-£100,000	0	0	0	0	0	0	0	0
£100,001-£150,000	0	0	0	1	0	1	0	108
£150,000+	0	1	0	1	0	2	0	351
<b>Total</b>	<b>5</b>	<b>12</b>	<b>20</b>	<b>24</b>	<b>25</b>	<b>36</b>	<b>443</b>	<b>1,020</b>

### 27. External Audit Costs

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

<u>2020/21</u>	<u>2021/22</u>
£000	£000
110 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	136
7 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	7
10 Fees payable to KPMG in respect of grant claims and returns for the year	10
<b>127</b>	<b>153</b>

### 28. Dedicated Schools Grants

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Details of the Deployment of DSG Receivable for 2021/22 are as follows:

	<u>Central</u> <u>Expenditure</u>  £000	<u>Individual</u> <u>Schools</u> <u>Budget</u>  £000	<u>Total</u>   £000
Final DSG for 2021/22 before Academy recoupment			214,512
Academy figure recouped for 2021/22			(71,951)
<b>Total DSG after Academy Recoupment for 2021/22</b>			<b>142,561</b>
Plus: Brought forward from 2020/21			0
Agreed initial budgeted distribution in 2021/22	<b>15,955</b>	<b>126,606</b>	<b>142,561</b>
In year adjustments		(276)	(276)
<b>Final Budgeted Distribution for 2021/22</b>	<b>15,955</b>	<b>126,330</b>	<b>142,285</b>
Less: Actual central expenditure	(17,560)		(17,560)
Less: Actual ISB deployed to schools		(126,883)	(126,883)
<b>In-year Carry Forward to 2022/23</b>	<b>(1,605)</b>	<b>(553)</b>	<b>(2,158)</b>
Carry Forward to 2022/23			0
DSG unusable reserve at the end of 2020/21			(8,934)
Addition to DSG unusable reserve in 2021/22			(2,158)
<b>DSG unusable reserve at the end of 2021/22</b>			<b>(11,092)</b>
<b>Net DSG position at the end of 2021/22</b>			<b>(11,092)</b>

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

## 29. Related Parties

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

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

During the year major transactions with related parties arose with: the Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined

## NOTES TO THE CORE FINANCIAL STATEMENTS

Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Hampshire, Southampton and Isle of Wight Clinical Commissioning Group as disclosed in Note 6 Other Items of Expenditure and Income and Note 39 Pooled Budgets; and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire and Isle of Wight Fire & Rescue Authority are not considered to be related party transactions, as the Collection Fund operates on an agency basis. Details of companies which the City Council has an interest are provided in Note 36.

The city of Southampton has submitted a bid to become the UK City of Culture 2025. Southampton City Council, along with other partners across the city, helped to support the bid process. Southampton 2025 Trust is the organisation that led on the submission of the bid. The Council provided £0.951M of grant funding and benefits-in-kind to support the bid process in 2021/22 (£0.551M in 2020/21).

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

- One councillor is a trustee of Yellow Door which received service payments and grant from the Council totalling £0.466M in 2021/22.
- One councillor is a trustee of Southampton Advice and Representation Centre which received service payments of £0.100M from the Council in 2021/22.
- One councillor is a trustee of Southampton Children's Play Association which received grant payments of £0.088M from the Council in 2021/22
- Two councillors have an interest in Music in the City which received grant payments of £0.014M from the Council in 2021/22.
- One councillor is a trustee of the National Spitfire Project which received grant payments from the Council of £0.045M in 2021/22.
- Four councillors have interests in organisations that received funding administered by the Council as part of the government's schemes to support businesses during the pandemic. The total amount awarded to these organisations was £0.094M.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

<b><u>CAPITAL EXPENDITURE AND FINANCING</u></b>		
	<b><u>2020/21</u></b>	<b><u>2021/22</u></b>
	<b>£000</b>	<b>£000</b>
<b>Opening Capital Financing Requirement</b>	<b>508,710</b>	<b>506,313</b>
<b><i>Capital Investment</i></b>		
Intangible assets	3,449	2,499
Property Plant & Equipment	73,385	83,428
Revenue Expenditure Funded from Capital under Statute	6,081	15,432
Heritage Assets	0	1,025
Investment Properties	1,263	0
Financial Instruments (Housing Improvement Loans)	(18)	(8)
<b><i>Sources of Finance</i></b>		
Capital Receipts	(16,829)	(3,814)
Government grants & other contributions	(32,918)	(56,790)
Use of Major Repairs Reserve	(19,056)	(22,014)
Direct Revenue Financing	(7,847)	(3,787)
Donated Asset	0	0
MRP	(9,907)	(14,407)
<b>Closing Capital Financing Requirement</b>	<b><u>506,313</u></b>	<b><u>507,877</u></b>
Increase in underlying need to borrow (unsupported by Government financial assistance)	7,510	15,971
MRP	(9,907)	(14,407)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b><u>(2,397)</u></b>	<b><u>1,564</u></b>

### 31. Leases

#### a) Council as a Lessor

##### Operating Leases

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>31 March</u> <u>2021</u> <u>£000</u>	<u>31 March</u> <u>2022</u> <u>£000</u>
Not later than one year	7,221	7,116
Later than one year and not later than five years	23,568	22,516
Later than five years	540,548	526,664
	<u>571,337</u>	<u>556,296</u>
Contingent Rents*	<u>275</u>	<u>544</u>

\*Slight increase in 2021/22 due to reduced impact of Covid-19 on West Quay

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

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

### 32. PFI and Similar Contracts

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

#### a) On Balance Sheet

##### PFI Schools

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

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

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

##### Hampshire Waste Contract

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

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique

## NOTES TO THE CORE FINANCIAL STATEMENTS

partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District Councils, and Veolia Environmental Services.

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

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

### **PFI Street Lighting**

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 street lights and associated apparatus. The contractor is also responsible for the operation and maintenance, to agreed performance standards, of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from Central Government and partly through existing Council budgets for street lighting. An agreement to re-finance the contract is expected to be concluded during 2022/23.

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

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
<b>Cost or Valuation</b>				
At 1 April 2021	41,311	12,309	25,819	79,439
Adjustment to Opening Balance				0
	41,311	12,309	25,819	79,439
Additions				0
Disposals				0
Revaluations	(1)			(1)
Impairments				0
<b>At 31 March 2022</b>	<b>41,310</b>	<b>12,309</b>	<b>25,819</b>	<b>79,438</b>
<b>Depreciation &amp; Impairment</b>				
At 1 April 2021	0	(2,661)	(6,395)	(9,056)
Adjustment to Opening Balance				0
	0	(2,661)	(6,395)	(9,056)
Depreciation Charge for the Year	(1,836)	(887)	(827)	(3,550)
Disposals				0
Revaluations	1,836			1,836
Impairments				0
<b>At 31 March 2022</b>	<b>0</b>	<b>(3,548)</b>	<b>(7,222)</b>	<b>(10,770)</b>
<b>Balance Sheet amount at 31 March 2022</b>	<b>41,310</b>	<b>8,761</b>	<b>18,597</b>	<b>68,668</b>
<b>Balance Sheet amount at 31 March 2021</b>	<b>41,311</b>	<b>9,648</b>	<b>19,424</b>	<b>70,383</b>

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

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	
Balance 1 April 2021	26,754	3,912	20,299	50,965
New Schemes in 2021/22	0	0	0	0
Repayments	(1,839)	(1,107)	(500)	(3,446)
<b>Balance 31 March 2022</b>	<b>24,915</b>	<b>2,805</b>	<b>19,799</b>	<b>47,519</b>
<b>Due within 1 Year</b>				
Balance 1 April 2021	1,839	1,107	500	3,446
Repayments	(1,839)	(1,107)	(500)	(3,446)
Due within 1 Year	1,423	1,135	586	3,144
<b>Balance 31 March 2022</b>	<b>1,423</b>	<b>1,135</b>	<b>586</b>	<b>3,144</b>
<b>Long Term Creditor Balance 31 March 2022</b>	<b>23,492</b>	<b>1,670</b>	<b>19,213</b>	<b>44,375</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,423	2,117	2,316	1,320	1,135	505	6,600	586	2,355	1,341	19,698
within 2 to 5 years	8,855	6,917	8,614	4,318	1,670	454	16,951	3,441	8,561	5,736	65,517
within 6 to 10 years	14,637	3,621	9,305	8,316				7,951	7,558	8,080	59,468
within 11 to 15 years								7,821	1,723	5,386	14,930
<b>Balance 31 March 2022</b>	<b>24,915</b>	<b>12,655</b>	<b>20,235</b>	<b>13,954</b>	<b>2,805</b>	<b>959</b>	<b>23,551</b>	<b>19,799</b>	<b>20,197</b>	<b>20,543</b>	<b>159,613</b>

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

	<u>BUPA Care Homes</u>		
	<u>Northlands</u>	<u>Oak Lodge</u>	<u>Total</u>
	£000	£000	£000
within 1 year	2,594	1,728	4,322
within 2 to 5 years	10,376	6,910	17,286
within 6 to 10 years	4,332	8,638	12,970
within 11 to 15 years		4,924	4,924
<b>Balance 31 March 2022</b>	<b>17,302</b>	<b>22,200</b>	<b>39,502</b>

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

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,839	2,274	1,844	1,080	7,037
Hampshire Waste	1,107	704	6,289		8,100
PFI Street Lighting	500	2,418	1,306		4,224
BUPA Care Homes					
Northlands			2,485		2,485
Oak Lodge			1,528		1,528
<b>Totals</b>	<b>3,446</b>	<b>5,396</b>	<b>13,452</b>	<b>1,080</b>	<b>23,374</b>

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

In 2021/22 the Council paid £11.6M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2020/21 £11.0M and 23.7%). The contributions due to be paid in the next financial year are estimated to be £11.9M.

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

### 34. Defined Benefit Pension Schemes

#### a) Participation in Pension Schemes

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

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

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

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

In 2021/22 the Council paid an employer's contribution of £24.3M (2020/21 £22.7M) into Hampshire County Council's Pension Fund. The employer's rate for 2021/22 was 18.2% of employees' pay (2020/21 18.2%).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2023 is £22.9M. The weighted average duration of the defined benefit obligation for the scheme members is 20.8 years.

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
<b>Service cost comprising:</b>						
Current Service Cost	43,958	60,154	0	0	43,958	60,154
Past Service Cost	484	94	0	0	484	94
(Gain)/loss from settlements	0	0	0	0	0	0
Financing and Investment Income and Expenditure						
Expenditure:						
Net interest expense	10,322	11,375	741	692	11,063	12,067
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>54,764</b>	<b>71,623</b>	<b>741</b>	<b>692</b>	<b>55,505</b>	<b>72,315</b>
<b>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>						
<b>Remeasurement of the net defined benefit liability comprising:</b>						
Return on plan assets (excluding the amount included in the net interest expense)	(193,418)	(60,247)	0	0	(193,418)	(60,247)
Actuarial gains and losses arising on changes in demographic assumptions	0	(28,637)	0	(504)	0	(29,141)
Actuarial gains and losses arising on changes in financial assumptions	268,851	(102,578)	2,673	(871)	271,524	(103,449)
Other experience and actuarial adjustments	(15,858)	(18,324)	(468)	127	(16,326)	(18,197)
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>59,575</b>	<b>(209,786)</b>	<b>2,205</b>	<b>(1,248)</b>	<b>61,780</b>	<b>(211,034)</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(54,764)	(71,623)	(741)	(692)	(55,505)	(72,315)
Actual amount charged against the General Fund Balance for pensions in the year						
<b>Employers Contributions payable to scheme</b>	<b>20,470</b>	<b>22,083</b>			<b>20,470</b>	<b>22,083</b>
<b>Retirement benefits payable to pensioners</b>			<b>2,242</b>	<b>2,172</b>	<b>2,242</b>	<b>2,172</b>

### c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2022 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £423.7M (2020/21 £586.7M) has a substantial

## NOTES TO THE CORE FINANCIAL STATEMENTS

impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	1,615,353	1,533,631	34,042	31,314	1,649,395	1,564,945
Fair value of plan assets	(1,062,676)	(1,141,200)	0	0	(1,062,676)	(1,141,200)
Sub-total	552,677	392,431	34,042	31,314	586,719	423,745
Other movements in the liability (asset)	0	0	0	0	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>552,677</b>	<b>392,431</b>	<b>34,042</b>	<b>31,314</b>	<b>586,719</b>	<b>423,745</b>

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

The latest actuarial valuation of liabilities took place at 31 March 2022. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2022.

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395
Current service cost	43,958	60,154	0	0	43,958	60,154
Interest cost	29,878	33,653	741	692	30,619	34,345
Contributions from scheme participants	8,012	8,317	0	0	8,012	8,317
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	0	(28,637)	0	(504)	0	(29,141)
Actuarial gains/losses arising from changes in financial assumptions	268,851	(102,578)	2,673	(871)	271,524	(103,449)
Other	(15,858)	(18,324)	(468)	127	(16,326)	(18,197)
Past service cost	484	94	0	0	484	94
Benefits paid	(29,203)	(34,401)	(2,242)	(2,172)	(31,445)	(36,573)
Liabilities extinguished on settlements (where relevant)	0	0	0	0	0	0
<b>Closing balance at 31 March</b>	<b>1,615,353</b>	<b>1,533,631</b>	<b>34,042</b>	<b>31,314</b>	<b>1,649,395</b>	<b>1,564,945</b>

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000	£000	£000
Opening fair value of scheme assets	850,423	1,062,676	0	0	850,423	1,062,676
Interest income	19,556	22,278	0	0	19,556	22,278
Remeasurement gain/(loss)	193,418	60,247	0	0	193,418	60,247
The effect of changes in foreign exchange rates	0	0	0	0	0	0
Contributions from employer	20,470	22,083	2,242	2,172	22,712	24,255
Contributions from employees into the scheme	8,012	8,317	0	0	8,012	8,317
Benefits paid	(29,203)	(34,401)	(2,242)	(2,172)	(31,445)	(36,573)
Other	0	0	0	0	0	0
<b>Closing fair value of scheme assets</b>	<b>1,062,676</b>	<b>1,141,200</b>	<b>0</b>	<b>0</b>	<b>1,062,676</b>	<b>1,141,200</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Basis for Estimating Assets and Liabilities

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

	Local Government Pension Scheme		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.1	23.2	23.1	22.9
Women	25.5	25.6	25.5	25.4
Longevity at 65 for future pensioners:				
Men	24.8	23.7	-	-
Women	27.3	26.6	-	-
CPI inflation	2.7%	3.0%	2.7%	3.0%
Rate of increase in salaries	3.7%	4.0%	-	-
Rate of increase in pensions	2.7%	3.0%	2.7%	3.0%
Rate for discounting scheme liabilities	2.1%	2.7%	2.1%	2.7%

### f) Pension Scheme Assets

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

	2020/21	2020/21	2020/21	2021/22	2021/22	2021/22
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	49.40	7.60	57.00	44.70	11.00	55.70
Property	0.80	5.30	6.10	0.90	6.00	6.90
Government Bonds	17.30	-	17.30	18.00	-	18.00
Corporate Bonds	-	-	-	-	-	-
Multi Asset Credit	-	-	-	9.20	-	9.20
Cash	1.40	-	1.40	0.90	-	0.90
Other	15.90	2.30	18.20	5.80	3.50	9.30
<b>Total assets</b>	<b>84.80</b>	<b>15.20</b>	<b>100.00</b>	<b>79.50</b>	<b>20.50</b>	<b>100.00</b>

### g) Sensitivity analysis

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	(32,206)	32,206
Rate of increase in salaries (increase or decrease by 1%)	3,067	(3,067)
Rate of increase in pensions (increase or decrease by 1%)	29,139	(29,139)
Rates for discounting scheme liabilities (increase or decrease by 1%)	52,143	(52,143)

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### 35. Contingent Liabilities/ Assets

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

#### a) Municipal Mutual Insurance – Scheme of Arrangement

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

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

An earmarked Insurance reserve, with a balance of £0.7M (2020/21 £0.7M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review.

As at 31 March 2022, the Council's outstanding potential liability under the SoA stood at £1.390M (2020/21 £1.390M), less the £0.347M payment already made under the scheme and noting that there were no outstanding claim reserves.

#### b) Equal Pay Claims

The Council has received a small number of equal pay claims which are due to proceed to tribunal. The Council has not accepted the validity of any claims received and will be challenging the claims as appropriate. The Council recognises the potential that further equal pay claims may arise, some of which may lead to employees taking employment tribunal action. It is not possible to estimate with any certainty the likely financial impact in advance of such claims being made.

### 36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2021/22 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationship:

#### PSP Southampton LLP

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

The aims and aspirations of the Partnership are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

A review of PSP indicates a joint venture, which would require the arrangement to be accounted for as an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2022 was £0.005M (2020/21 £0.008M). The Council received £0.640M distributed profits in 2020/21.

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

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

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

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
(12,418)	Balance Brought Forward	(26,298)
(20,728)	Amounts Received in Year	(42,548)
6,848	Amounts Applied to Finance Capital in year	18,990
<b><u>(26,298)</u></b>	<b>Balance Carried forward</b>	<b><u>(49,856)</u></b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2020/21</u> £000		<u>2021/22</u> £000	£000
	<b>Grants</b>		
	Department for Education		
0	Basic Need Grant	(8,180)	
(6,306)	School Condition Allocation	(4,306)	
(470)	Schools Devolved Formula Grant	(465)	
(409)	Special Provision Allocation	0	
0	High Needs Provision Capital Allocation	(2,107)	
(52)	Priority School Building Programme	0	
(71)	Other	0	
<u>(7,308)</u>			<u>(15,058)</u>
(6,043)	Department for Levelling Up, Housing and Communities		(2,744)
0	Department for Business, Energy & Industrial Strategy		(1,623)
(9)	Heritage Lottery Fund		(1)
(15,631)	Department for Transport		(19,460)
(10)	Department for Culture, Media and Sport		(10)
0	Homes & Communities Agency		(474)
0	Environment Agency		(118)
(110)	Other		(87)
<u>(29,111)</u>			<u>(39,575)</u>
<b>(1,926)</b>	<b>Contributions</b>		<b>(4,298)</b>
<u><b>(31,037)</b></u>	<b>Total</b>		<u><b>(43,873)</b></u>
<b>(25,228)</b>	<b>Credited to Capital Grants and Contributions CIES</b>		<b>(28,746)</b>
<b>(5,809)</b>	<b>Credited to Cost of Services</b>		<b>(15,127)</b>
<u><b>(31,037)</b></u>	<b>Total</b>		<u><b>(43,873)</b></u>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2020/21</u>		<u>2021/22</u>
£000		£000
	<b>General Government Grants</b>	
(10,964)	Revenue Support Grant	(11,024)
(6,696)	Social Care Support Grant	(8,451)
(4,915)	Section 31 Business Rates Grants	(4,932)
(4,628)	Business Rates Retention Tariff/Top-Up	(4,628)
(4,098)	MHCLG - New Homes Bonus Scheme	(1,512)
(1,181)	Housing Benefit and Council Tax Admin Grant	(1,249)
<u>(1,521)</u>	Other Grants	<u>(1,300)</u>
(34,003)		(33,096)
	<u>COVID-19</u>	
(25,586)	Section 31 Business Rates Grants	(12,011)
(15,532)	COVID-19 Local Authority Support	(7,817)
	Local Council Tax Support Grant	(2,818)
(7,374)	Compensation for Loss of Fees & Charges	(1,244)
(1,127)	Local Tax Income Guarantee Scheme	
<u>(354)</u>	Other Grants	<u>(775)</u>
<u>(49,973)</u>		<u>(24,665)</u>
<b><u>(83,976)</u></b>		<b><u>(57,761)</u></b>
	<b>Credited to Services</b>	
(135,442)	Dedicated Schools Grant (DSG)	(142,285)
(69,916)	Housing Benefit Grant	(63,197)
(17,242)	Public Health Grant	(17,459)
(10,390)	Improved Better Care Fund	(10,390)
(9,573)	Pupil Premium	(9,551)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(1,534)	Homelessness and Rough Sleeping Grants	(2,716)
	Unaccompanied Asylum Seeking Children	(1,317)
(1,533)	Universal Infant Free School Meals	(1,206)
(5,141)	Teachers Pay and Pension Grants	
<u>(9,478)</u>	Other Grants	<u>(10,834)</u>
(266,108)		(264,814)
	<u>COVID-19</u>	
(1,564)	Local Authority Discretionary Grant Funding to Businesses	(7,947)
(5,916)	Contain Outbreak Management Fund	(2,017)
	Adult Social Care Workforce	(2,136)
	Household Support Fund	(1,956)
	Local Support Grant (formerly Winter Grant Scheme)	(1,325)
(1,228)	Pupil Premium Catch Up Funding	(1,194)
	School Holiday Activities and Food Programme	(1,073)
(951)	Adult Social Care Infection Control & Testing Discretionary Grants	(1,156)
(2,584)	Council Tax Hardship Fund	
(1,571)	Test and Trace Service Grant	
<u>(4,767)</u>	Other Grants	<u>(4,563)</u>
<u>(18,581)</u>		<u>(23,367)</u>
<b><u>(284,689)</u></b>		<b><u>(288,181)</u></b>
	<b>Not included in the Comprehensive Income and Expenditure Statement</b>	
	<u>COVID-19</u>	
	Restart Grants to Businesses	(10,944)
(3,205)	Adult Social Care Infection Control & Testing Grants	(2,300)
	Omicron Hospitality & Leisure Grants	(1,442)
(37,550)	Small Business and Retail, Hospitality and Leisure Grants	
(10,638)	Local Restrictions Support Grants to Businesses	
(7,251)	Closed Business Lockdown Grants	
<u>(970)</u>	Other Grants	<u>(1,256)</u>
<b><u>(59,614)</u></b>		<b><u>(15,942)</u></b>

The £15.9M (£59.6M 2020/21) of grants not included in the Comprehensive Income and Expenditure Statement are where the Council has acted as an agent of central government in disbursing funding to businesses, social care providers and individuals. In addition, there was £11.2M of business support grants within the Creditors balance as at 31 March 2022 (£17.6M at 31 March 2021) where the Council has acted

## NOTES TO THE CORE FINANCIAL STATEMENTS

as an agent that had been received but not disbursed to businesses.

### 38. Deferred Liabilities

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

<u>31 March</u> <u>2021</u> <u>£000</u>	<u>31 March</u> <u>2022</u> <u>£000</u>
13,826	13,462
(364)	(364)
<u>13,462</u>	<u>13,098</u>

### 39. Pooled Budgets

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

#### Better Care Southampton

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

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

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

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

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

<u>2020/21</u>				<u>2021/22</u>			
<u>LBHU</u>		<u>R&amp;R</u>		<u>LBHU</u>		<u>R&amp;R</u>	
£000	%	£000	%	£000	%	£000	%
				<b>Better Care Fund</b>			
				<b>Funding - Contributions / Grants</b>			
				Brought Forward			
0		0		0		0	
(1,187)	47%	(4,896)	25%	(1,410)	53%	(5,523)	31%
(1,336)	53%	(14,980)	75%	(1,274)	47%	(12,388)	69%
<u>(2,523)</u>		<u>(19,876)</u>		<u>(2,684)</u>		<u>(17,911)</u>	
2,523		19,876		2,684		17,911	
<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>	
				<b>Expenditure</b>			
				Carried Forward			

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 40. Trust and Other Funds

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

	<u>Income</u> £000	<u>Expenditure</u> £000	<u>Assets</u> £000	<u>Purpose</u>
Aldridge Bequest	(8)	0	(243)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	0	0	(169)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	0	(44)	Works of art
LC Smith Bequest	0	0	(35)	Merchants Navy's Memorial maintenance help in Holyrood Church
<b>Minor Trust Funds consisting of:</b>				
Ida Bany Bequest	0	1	(12)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(4)	Bitterne Park School special annual prizes
Southampton Archives Bequest	0	0	(5)	Preserve historical records
<b>Trust Funds Total</b>	<b>(8)</b>	<b>1</b>	<b>(516)</b>	
Wessex Slaughterhouse Board	0	0	(93)	Pensions to former employees
<b>Total</b>	<b>(8)</b>	<b>1</b>	<b>(609)</b>	

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Housing Revenue Account

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

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

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

### HRA Income and Expenditure Statement

<u>2020/21</u>		<u>2021/22</u>
£000	Expenditure	Notes £000
17,464	Repairs and maintenance	18,532
27,336	Supervision and management	30,129
4,491	Rents, rates, taxes and other charges	5,893
(20,468)	Depreciation, impairment and revaluation (gains) of non-current assets	(19,176)
81	Debt management costs	87
923	Movement in the allowance for bad debts	1 690
<b>29,827</b>	<b>Total Expenditure</b>	<b>36,155</b>
	<b>Income</b>	
(70,482)	Dwellings rent	(71,036)
(1,212)	Non-dwelling rents	(1,236)
(7,855)	Charges for services & facilities	(8,182)
(871)	Contributions towards expenditure	(990)
<b>(80,420)</b>	<b>Total Income</b>	<b>(81,444)</b>
<b>(50,593)</b>	<b>Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>(45,289)</b>
518	HRA services' share of Corporate and Democratic Core	518
<b>(50,075)</b>	<b>Net Expenditure/ (Income) for HRA Services</b>	<b>(44,771)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(1,640)	(Gain) or loss on the sale of HRA non-current assets	(2,839)
(58)	Capital Receipts not matched by Disposal of Assets	(31)
(57)	Investment Property Revaluation Movements	(133)
4,779	Interest payable and similar charges	4,779
0	Interest and investment income	0
1,991	Net interest on the net defined benefit liability	2,184
(514)	Capital grants and contributions receivable	(1,006)
<b>(45,574)</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>	<b>(41,817)</b>



## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### Statement of Movement on the Housing Revenue Account

<u>2020/21</u> £000		<u>2021/22</u> £000	£000
(2,000)	Opening Balance		(2,000)
	<b>Movement in Year</b>		
(45,574)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(41,817)	
45,574	Adjustments between accounting basis and funding basis under statute	40,897	
<u>0</u>	Transfer to / (from) reserves		<u>(920)</u>
<u>(2,000)</u>	<b>Closing HRA Balance</b>		<u>(2,920)</u>

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

<u>2020/21</u> £000		<u>2021/22</u> £000
	<b>Analysis of adjustments between accounting basis and funding basis under statute</b>	
20,468	Depreciation, impairment and revaluation gains or (losses) of non-current assets	19,176
	Voluntary MRP	3,702
1,698	Gain or (loss) on the sale of HRA non-current assets	2,870
57	Impairment and revaluation of investment properties	133
(5,903)	HRA share of contribution to or from the pension reserve	(8,698)
21,553	Transfer to Major Repairs Reserve	19,517
514	Capital grants and contributions applied	1,006
7,187	Capital expenditure funded by the HRA	3,191
<u>45,574</u>	<b>Net Adjustment</b>	<u>40,897</u>

#### 1. Council House Rents

At 31 March 2022, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 15.00% (31 March 2021 14.48%). The total arrears were £10.142M (31 March 2020 £9.889M). Rents written off during the year amounted to £0.869M (2020/21 £0.377M). The amount set aside for doubtful debts was £5.338M (31 March 2021 £5.520M).

#### 2. Housing Stock

As at the 31 March 2022, the Council housing stock was made up of the following types of property:

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<b><u>Number of Properties Held</u></b>			
<b>31 March 2021</b>		<b>31 March 2022</b>	
4,872	Houses	4,848	
10,959	Flats	11,032	
16	Bungalows	16	
<b><u>15,847</u></b>		<b><u>15,896</u></b>	

The Balance Sheet value of HRA assets was as follows:

<b><u>Balance Sheet Value of HRA Assets</u></b>			
<b><u>2020/21</u></b>		<b><u>2021/22</u></b>	
<b>£000</b>		<b>£000</b>	
<b><i>Property Plant &amp; Equipment</i></b>			
681,654	Dwellings	754,041	
8,347	Other Operational Property	8,107	
43,109	Assets Under Construction	18,799	
<b><u>733,110</u></b>		<b><u>780,947</u></b>	
<b><i>Other Property</i></b>			
5,765	Investment Property	5,898	
617	Intangibles	876	
423	Surplus Assets	421	
<b><u>6,805</u></b>		<b><u>7,195</u></b>	
<b><u>739,915</u></b>		<b><u>788,142</u></b>	

The vacant possession value of Council Dwellings at 1 April 2021 was £2,046M (£1,958M as at 1 April 2020) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2022.

### 3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. There were no impairments in 2020/21 or 2021/22.

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2020/21</u> £000	Depreciation	<u>2021/22</u> £000
19,597	Balance at 1 April	21,799
(19,597)	Depreciation written off in year	(21,311)
<u>21,553</u>	Depreciation during year	<u>19,517</u>
<u><b>21,553</b></u>	<b>Balance as at 31 March</b>	<u><b>20,005</b></u>

### 4. Capital Expenditure

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

<u>Capital Spending</u>		
<u>2020/21</u> £000		<u>2021/22</u> £000
18,528	Housing Stock	26,546
14,818	Housing Stock Under Construction	6,142
617	Intangible assets	381
<u><b>33,963</b></u>	<b>Total Capital Expenditure</b>	<u><b>33,069</b></u>
<u>Capital Expenditure Source of Finance</u>		
£000		£000
7,206	Capital Receipts	3,562
0	Grants	0
19,056	Transfer from Major Repairs Reserve	22,014
514	Contributions	1,006
7,187	Direct Revenue Funding	3,191
0	Unsupported Borrowing	3,296
<u><b>33,963</b></u>	<b>Total Financing</b>	<u><b>33,069</b></u>

### 5. Capital Receipts

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

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

Any additional receipts can be used to fund up to 40% (2020/21 30%) of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2021/22 the Council received £3.36M (2020/21 £1.52M) from right to buy sales that can be utilised on new build affordable housing projects.

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2020/21</u>	<b>Sale of Assets</b>	<u>2021/22</u>
£000		£000
4,368	Council Housing	7,092
58	Land, Buildings & Equipment	31
<u>4,426</u>		<u>7,123</u>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### The Collection Fund

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

<b>Income and Expenditure for the Year Ended 31 March 2022</b>			
<b>2020/21</b>		<b>2021/22</b>	
<b>£000</b>	<b>Council Tax</b>	<b>Notes</b>	<b>£000</b>
	<b>Income</b>		
(118,825)	Income due from Council Tax Payers		(128,836)
	Transfers (to)/ from the General Fund		
(2,756)	- Hardship Relief		(207)
7	- Transitional Relief		0
<u>(2,749)</u>			<u>(207)</u>
<b>(121,574)</b>			<b>(129,043)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
(251)	- Southampton City Council		(2,204)
(33)	- Hampshire Police & Crime Commissioner		(298)
(11)	- Hampshire and IOW Fire & Rescue Authority		(97)
<u>(295)</u>			<u>(2,599)</u>
<b>(121,869)</b>	<b>Total Council Tax Income</b>		<b>(131,642)</b>
	<b>Expenditure</b>		
	Precepts		
102,535	- Southampton City Council Precept		105,881
13,844	- Hampshire Police & Crime Commissioner Precept		14,582
4,521	- Hampshire and IOW Fire & Rescue Authority Precept		4,535
<u>120,900</u>		2	<u>124,998</u>
	Impairment of debts		
1,287	- Write offs		1,219
<u>(1,770)</u>	- Allowance for impairment		<u>1,489</u>
<b>(483)</b>			<b>2,708</b>
<b>120,417</b>	<b>Total Council Tax Expenditure</b>		<b>127,706</b>
<b>(1,452)</b>	<b>Council Tax - Deficit / (Surplus) for the Year</b>	4	<b>(3,936)</b>
2,629	Council Tax - Deficit / (Surplus) Brought Forward	4	1,177
<b>1,177</b>	<b>Council Tax Deficit / (Surplus) Carried Forward</b>	4	<b>(2,759)</b>
	<b>Business Rates</b>		
	<b>Income</b>		
<b>(57,094)</b>	Income Collectable from Business Ratepayers	3	<b>(87,219)</b>
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
940	- Southampton City Council		(25,585)
(441)	- Central Government - DLUHC		(26,198)
5	- Hampshire and IOW Fire & Rescue Authority		(523)
<u>504</u>			<u>(52,306)</u>
<b>(56,590)</b>	<b>Total Business Rates Income</b>		<b>(139,525)</b>
	<b>Expenditure</b>		
1,554	- Payment to DLUHC - Transitional Arrangements		1,005
52,917	- Payment to DLUHC - Business Rate Retention		49,831
51,858	- SCC Business Rates Retention		48,835
1,058	- Hampshire and IOW Fire & Rescue Authority Precept		997
0	- Interest on Overpayments		0
<u>308</u>	- Costs of Collection		<u>304</u>
<b>107,695</b>			<b>100,972</b>
	Impairment of debts/appeals		
111	- Write offs		772
(3)	- Allowance for impairment		1,199
<u>151</u>	- Appeals provision		<u>3,010</u>
<b>259</b>			<b>4,981</b>
<b>107,954</b>	<b>Total Business Rates Expenditure</b>		<b>105,953</b>
<b>51,364</b>	<b>Business Rates (Surplus) / Deficit For the Year</b>	4	<b>(33,572)</b>
(683)	Business Rates - Deficit / (Surplus) Brought Forward	4	50,681
<b>50,681</b>	<b>Business Rates Deficit / (Surplus) Carried Forward</b>	4	<b>17,109</b>
<b>51,858</b>	<b>Total Collection Fund (Surplus) / Deficit</b>	4	<b>14,350</b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

### 1. Introduction

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

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

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies, normally in the subsequent financial year. To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years. One third of this estimated exceptional loss was recovered from precepting bodies in 2021/22, with the remaining two thirds to be recovered in 2022/23 and 2023/24. For Southampton, Council Tax precepting bodies are the Police and Crime Commissioner for Hampshire and the Hampshire and Isle of Wight Fire & Rescue Authority.

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

### 2. Council Tax Base

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

The Council Tax base for 2021/22 was 66,108 (2020/21 67,215). The tax base for 2021/22 was calculated as follows:

<b>Council Tax Base</b>			
	<b><u>Net Chargeable</u></b>	<b><u>Relevant</u></b>	<b><u>Band D</u></b>
	<b><u>Dwellings</u></b>	<b><u>Proportion</u></b>	<b><u>Equivalents</u></b>
Band A Disabled	37.7	5/9	20.9
Band A	20,905.4	6/9	13,936.9
Band B	26,941.1	7/9	20,954.2
Band C	19,243.1	8/9	17,105.0
Band D	8,235.4	9/9	8,235.4
Band E	2,735.2	11/9	3,343.0
Band F	1,274.8	13/9	1,841.4
Band G	397.1	15/9	661.8
Band H	4.5	18/9	9.0
	<b><u>79,774.3</u></b>		<b><u>66,107.6</u></b>

## OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 66,108 (2020/21 67,215) and multiplying this by the standard Council Tax of £1,941.28 (2020/21 £1,846.70) gives a total estimated income from taxpayers of £128.3M (2020/21 £124.1M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 97.4%, giving a net Council Tax Base of 64,389. Multiplying this by the standard Council Tax of £1,941.28 gives the total precepts on the Collection Fund of £125.0M (65,468 multiplied by £1,846.70 - £120.9M 2020/21).

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

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

The Council in 2021/22 estimated NDR income of approximately £99.6M (2020/21 £105.8M), £48.8M (2020/21 £51.9M) retained by the Council, £1.0M (2020/21 £1.1M) payable to Hampshire and Isle of Wight Fire & Rescue Authority and £49.8M payable to Central Government (2020/21 £52.9M). This estimate was made prior to the government announcing the continuation of significant additional rate reliefs to support particular business sectors during the pandemic. For Southampton £23.3M of these additional reliefs were awarded in 2021/22 (£50.2M in 2020/21). The Rateable Value on 31 March 2022 was £263.7M (2020/21 £266.3M) and the Business Rate Multiplier for the year 49.9p (2020/21 49.9p) in the £, giving gross rates before reliefs of £131.6M (2020/21 £132.9M).

### 4. Collection Fund Balance

The total Collection Fund deficit carried forward for the year is £14.4M (2020/21 £51.9M deficit). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

	<b>Analysis of Collection Fund Balance</b>					
	<b>In Year</b>			<b>Cumulative</b>		
	<b>Council Tax</b>	<b>Business Rates</b>	<b>Total</b>	<b>Council Tax</b>	<b>Business Rates</b>	<b>Total</b>
<b>(Surplus)/ Deficit</b>	<b>(Surplus)/ Deficit</b>		<b>(Surplus)/ Deficit</b>	<b>(Surplus)/ Deficit</b>		
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Central Government		(16,830)	(16,830)		8,555	8,555
Southampton City Council	(3,336)	(16,406)	(19,742)	(2,336)	8,383	6,047
Hampshire & IOW FRA	(454)	(336)	(790)	(323)	171	(152)
Hampshire PCC	(146)		(146)	(100)		(100)
<b>Balance as at 31 March</b>	<b>(3,936)</b>	<b>(33,572)</b>	<b>(37,508)</b>	<b>(2,759)</b>	<b>17,109</b>	<b>14,350</b>

## GLOSSARY

### 1. Accruals

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

### 2. Budget

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

### 3. Capital Adjustment Account (CAA)

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

### 4. Capital Expenditure

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

### 5. Capital Receipts

The proceeds from the sale of capital assets.

### 6. Community Assets

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

### 7. Contingency

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

### 8. Council Tax

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

### 9. Creditor

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

### 10. Debtor

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

### 11. Depreciation

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

### 12. Effective Interest Rate (EIR)

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

### 13. Fair Value

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



## GLOSSARY

### **14. Financial Assets**

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

### **15. Finance Lease**

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

### **16. Financial Instrument**

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

### **17. Financial Liability**

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

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

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

### **19. General Fund**

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

### **20. Government Grants**

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

### **21. Heritage Assets**

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

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

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

### **23. Impairment**

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

### **24. Infrastructure Assets**

Examples of infrastructure assets are highways, bridges and footpaths.

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

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

## GLOSSARY

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

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

### **27. Materiality**

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

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

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

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

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

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

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

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

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

### **32. Net Expenditure**

Total expenditure for a service less directly related income.

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

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

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

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

### **35. Operating Leases**

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

### **36. Operational Assets**

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

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

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

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

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

## GLOSSARY

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

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

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

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

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

### **41. Revaluation Reserve**

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

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

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

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

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

### **44. Stock**

Comprise the following categories:

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

### **45. Treasury Management**

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

### **46. Useful Life**

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

## SCOPE OF RESPONSIBILITY

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

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

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

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

or can be obtained from the:

Director of Governance, Legal and HR  
Southampton City Council,  
Civic Centre,  
Southampton,  
SO14 7LY

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

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

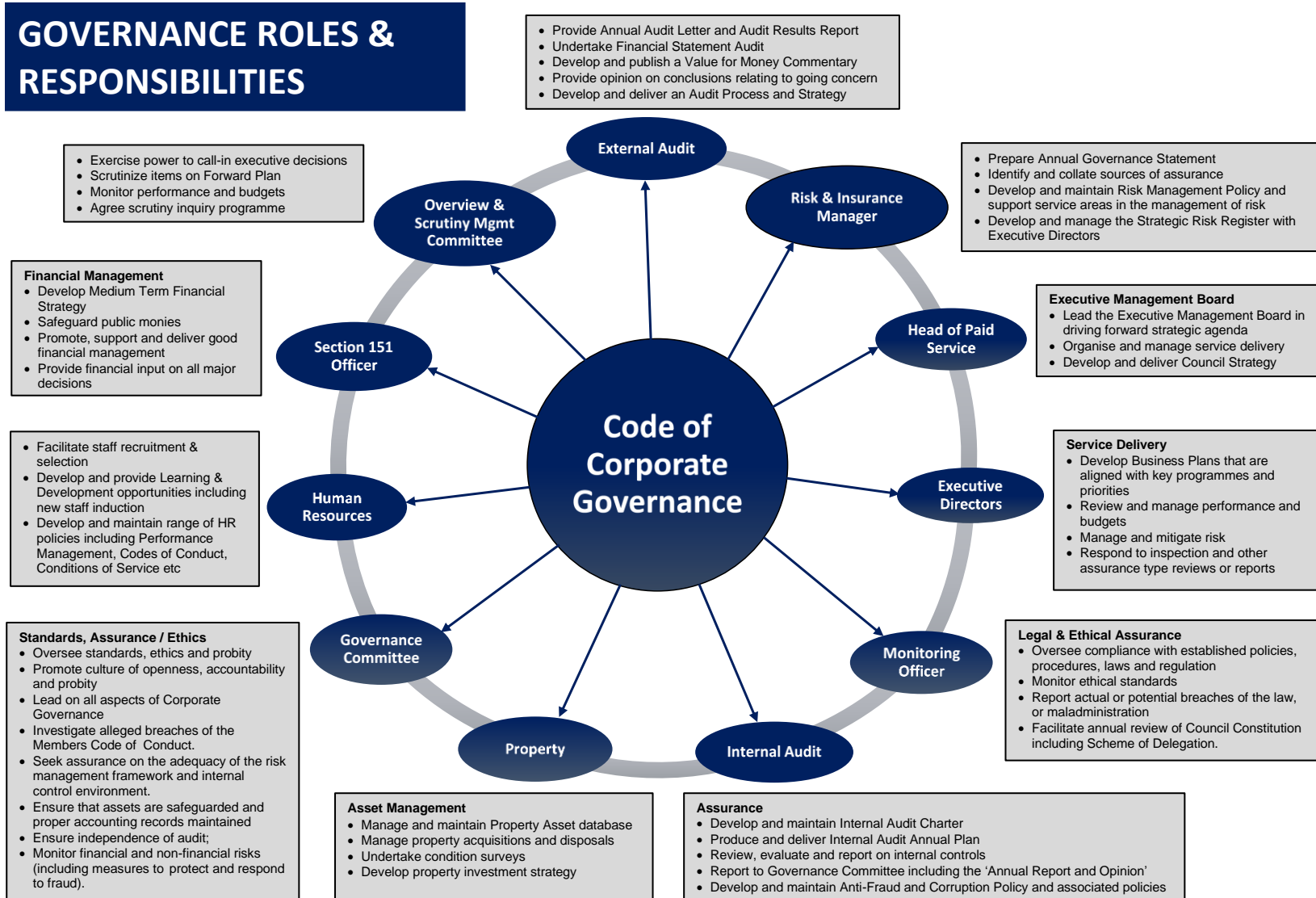
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing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

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

The governance framework has been in place at the council for the year ended 31st March 2022 and up to the date of approval of the statement of accounts.

# ANNUAL GOVERNANCE STATEMENT

## GOVERNANCE ROLES & RESPONSIBILITIES



# ANNUAL GOVERNANCE STATEMENT

## The Governance Framework

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

## Impact of the Covid-19 Pandemic on Governance

The national and international public health emergency caused by the Covid-19 pandemic had a substantial impact on the city and the council. These included implications for the provision of services, our workforce and the council's financial position. Effective leadership and governance of the response and recovery were critical as the council emerged from the worst impacts of the pandemic. The focus is now on the city's longer-term recovery, including its economy, its residents, and communities.

Throughout 2021/22, actions continued to be implemented to facilitate a resumption of normal business as far as possible and as quickly as possible once the impact of the pandemic began to ease and in line with the Government's 'Living with Covid' plan. Procedures were put in place to enable corporate buildings to reopen with appropriate 'Covid-safe' arrangements, albeit with reduced capacity, until national restrictions were lifted in February 2022. Working practices were stabilised with a move to a flexible and hybrid working approach that enables all staff who can work from home or another location (with their mobile device) to consider where they can best work, taking into account team and business needs. This was supported by the increased capacity of the remote connection to make it more reliable and increase the range of services available outside of the office. Within the offices Audio Visual (AV) equipment has been installed in meeting rooms across the council in order to facilitate hybrid meetings whereby some attend virtually and others are physically present in a meeting room.

The council's response to Covid required both Corporate and Service Business Continuity plans to be used to ensure that critical services were able to be maintained, and for its emergency planning structure (comprising 'Gold' & 'Silver' Command Groups) to be enacted. These senior manager and officer groups met to discuss, recommend, and agree key operational and service delivery matters. This structure was formally stood down in August 2021 as the organisation reverted to 'business as usual' operations.

The relevant Coronavirus Act powers, that allowed for virtual committee meetings from 19th May 2020, only applied to council meetings that took place before 7 May 2021. Thereafter decision-making Member meetings had to revert to meeting physically which, at the time, required significant adjustments to meeting arrangements including face-to-face Full Council meetings involving all 48 councillors. This presented a significant challenge however the decision-making processes of the council were maintained in compliance with the legislative requirements.

The local City Council and Police and Crime Commissioner elections due in May 2020, but postponed in line with government direction at the time, were held on 6<sup>th</sup> May 2021. This was a combined poll including the Police and Crime Commissioner elections for Hampshire and local city Councillor elections across Southampton. Local City council elections were also held in May 2022 as per the normal electoral cycle. In both instances, a range of Covid-19 safety measures and precautions were in place and communicated including a campaign to promote the opportunity of postal voting (across traditional and social media channels).

Whilst the council has since returned to 'business as usual' the medium and longer-term impact of the Covid-19 pandemic on the council will emerge, however the focus will continue to be on delivering and maintaining services for residents which are efficient, effective and deliver value for money using available resources.

## ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

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

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

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' that is published on the council's website and explains how to make a complaint and how it will be dealt with. There is also a separate 'Children Statutory Complaint Procedure' which is also published on the council's website. Both policies were reviewed and updated in 2021/22. In addition, a "paper" complaints form has been designed and made available at "in person" contact points e.g. Libraries and Housing Offices etc, in order to make complaints compliments and comments accessible to those without internet access.

Complaints relating to the conduct of Members are dealt with under the Members' Code of Conduct.

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

The council also has in place a Modern Slavery and Human Trafficking Statement sets out the Council's

## ANNUAL GOVERNANCE STATEMENT

current position and future plans to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and/or in its supply chains. In addition, there is e-learning training and associated guidance available to all staff.

### **B. Ensuring openness and comprehensive stakeholder engagement**

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

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

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example, a public engagement exercise, between 14th February 2022 and 3rd April 2022, was undertaken with residents and stakeholders on the Southampton City Vision (the new Local Plan). It provided an opportunity for residents and stakeholders to help shape the city by "telling us your views about how we can make sure we build the right things in the right places and create somewhere you want to live with the right facilities around you".

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect residents' views on a range of topics, with the next survey scheduled for late 2023. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions of how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions, which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

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

The council has in place a 'People's Panel' which now has a membership of over 3,500 people and is open to any resident over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes. In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on children and young people in the city, with a vision to become a Child Friendly City and working towards the goal of accreditation with UNICEF UK by 2024/25. The programme aims to create cities and communities in the UK where all children have meaningful say in, and truly benefit from, the local decisions, services and spaces that shape their lives. To support this a 'Southampton's Children and Young People's Participation Strategic Plan 2022/27' is now in place and has replaced the



## ANNUAL GOVERNANCE STATEMENT

'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020'. This new Strategic Plan forms part of an overarching 'Children and Young People's Strategy' that comprises eight strategic plans, alongside a range of service delivery and improvement plans.

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

The Southampton City Council Corporate Plan ('Corporate Plan') sets out how the council will create the environment to achieve the vision of Southampton as a 'city of opportunity'. The 'Corporate Plan' was revised following the local elections in May 2021 to articulate the priorities and ambitions of the new political administration and set out specific deliverables and timescales. This revised '2021-2025 Corporate Plan' was published on the council website and provided a framework for assessing progress towards those priorities. Progress in respect the commitments, initiatives and priorities was monitored, reviewed, and updated on a six-monthly basis by both the council's Executive Management Board and Cabinet.

Following the local elections in May 2022, a new 2022-2030 Corporate Plan was developed and subsequently approved by Cabinet in November 2022. The Corporate Plan articulates the organisational vision, goals and areas of focus of the Council over the next eight years and aligns to other key strategies across the Council such as Health and Wellbeing, Safe City Partnership, Economic and Green Growth and Children and Young People.

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



Customer focused



Collaborative



Curious and creative



Can-do



Commercially minded

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

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

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

## ANNUAL GOVERNANCE STATEMENT

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the LEP is drawn from the area's key business, universities, the further education sector, and local authorities. In 2021, a national review of the future role of LEPs was commissioned and a Levelling-Up White Paper, published in February 2022, set a course for LEPs and their future relationship with national and local government. In the Spring Budget 2023 the announcement was made that the government intends for the functions of Local Enterprise Partnerships (LEPs) to be delivered by local government in the future. Therefore, the government is minded to withdraw central government support for LEPs from April 2024. DLUHC and the Department for Business and Trade will now consult on these proposals, before confirming a decision.

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

In July 2021, Government invited expressions of interest from Local Authorities who were interested in progressing dialogue over devolution of powers through a 'County Deal' approach. Subsequently, in addition to a submission by Hampshire County Council, Southampton City Council, Portsmouth City Council and Bournemouth, Christchurch and Poole Council, all submitted expressions of interest. The Hampshire or Solent region was not selected to be a pilot, but subsequent discussions between Government officials and Chief Executives of the upper tier authorities have taken place, but there remains a substantial amount of work ahead, if any deal can progress, with geography and governance remaining as critical issues.

Southampton City Council supported the process of establishing the Solent Freeport, with representation by the Leader of the Council on the Solent Freeport Consortium Limited (SFCL) company from 2020/21 and beyond, along with other local councils and local private sector representation. Freeports are an important Government programme that are expected to play an important part in the UK's post-Covid and post-Brexit economic recovery. Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivise private sector investment. Its aim is to contribute to Government's levelling up agenda by bringing jobs, investment, and high-value opportunities to coastal communities. The Full Business Case for the establishment of the Freeport was submitted to Government in April 2022. During 2022/23, the Government accepted the final business case of the Consortium and granted Freeport status.

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

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

## ANNUAL GOVERNANCE STATEMENT

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

From April 2020 to May 2021, due to Covid-19, all scrutiny meetings were held remotely with members of the public able to view meetings live via the council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the discussion. In addition, scrutiny inquiries continue to consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members. Scrutiny meetings have since transitioned back to in person meetings with the opportunity for members of the public to attend in person or view the meeting on-line.

In 2022 the Council engaged the Centre for Governance and Scrutiny (CfPS) to undertake an informal peer review of aspects of decision making and relationships between officers and members. A final draft report was presented in the Summer 2022 for consideration and initial thoughts and observations. The CfGS reflected on those responses and produced the final report in September 2022 which was subsequently presented to the council's Governance Committee in November 2022. Following that, a 10 point Action Plan has been formulated, agreed by political Group Leaders and is now being implemented incrementally over the next 6 months, both pre and post May 2023 elections.

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

The council's Workforce Strategy was replaced in January 2023 by a 'People Strategy' that aims to create an organisation where people can be the best of themselves, grow and do their finest work, making Southampton a city of opportunity. The People Strategy sets out a high-level vision, priorities, and outcomes under six themes:

1. Understand the people we need and get the right people in
2. Have the right people as managers
3. Pay, reward and recognise in the right way
4. Keep people engaged, working to adapt and improve
5. Taking ownership and adding value
6. People who can thrive and grow

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

A new 'Collaborative Leadership Programme', aimed at people new to line managing others, existing team leaders, supervisors, and managers up to middle managers and Service manager and above, was formally launched in January 2022 based on the council's core values and built around the leadership competencies. As part of the council's 'Collaborative Leadership Programme' training, one of the modules is 'Ethics and Values' which explores the seven principles of public life and the values and behaviours that underpin these. In addition, a new 'Senior Leader Development' programme is being developed that will follow similar models.

In respect of Elected Members, an internal Member Induction and Development programme is in place and offers a suite of learning and development opportunities via targeted service focussed sessions or

## ANNUAL GOVERNANCE STATEMENT

via a monthly briefing programme. Alongside the internal offer, a range of externally delivered training events and courses were delivered by the 'Local Government Association, the Local Government Information Unit and South-East Employers. These opportunities have ranged from 'being a new councillor', supported skill development such as chairing meetings, speed reading and retention and up to portfolio based and leadership development training. A review of the Member Learning and Development offer took place during 2021 with input from both Elected Members and internal service areas in order to identify further development and training opportunities. The refreshed programme, for the 2022/23 financial year offers a wide range of training and development events.

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves. In November 2021 the council formally adopted a 'Diversity and Inclusion' pledge linked to the Equalities Act 2010. The pledge seeks to commit the council as an employer and partner in exceeding its responsibilities under the legislation and ensuring that support is provided to all those who work with the council and that it is the most diverse and inclusive employer that it can be.

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

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

The Committee receives an annual Risk Management Report that summarises the framework and arrangements that the council has in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. The report also provides information on the key risk management activities and initiatives undertaken in the year and those planned for the next 12 months. The council also has a 'Risk Management Policy' that sets out the framework, arrangements, and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated on a quarterly basis with a report presented to the council's Finance, Commercialisation and Performance Board which comprises the Executive Management Team. The Finance, Commercialisation and Performance Board has since been discontinued and from January 2023 the report has been presented to the Executive Management Team. The report identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary. Risk management is increasingly being used to assess the impacts and risks to the council and its services arising from unforeseen events for example the Afghan refugee resettlement and the conflict in Ukraine. In addition, the need to identify and manage risk runs throughout the council's project and programme management governance process from initiation to implementation.

## ANNUAL GOVERNANCE STATEMENT

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Strategy ('MTFS') 2022/23 – 2025/26 provides a strategic financial framework and a forward-looking approach to achieving long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

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

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

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

The Chartered Institute of Public Finance and Accountancy ('CIPFA') published a new Financial Management Code ('FM Code') for authorities to adhere to, with 2021/22 being the first year of compliance. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities based on broad principles and requires each authority to demonstrate that its processes satisfy the principles of good financial management.

In 2020/21, as part of its preparations for embedding enhanced standards of financial management, officers undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. Whilst the conclusion was that there is good practice in financial management there were also areas where the need for improvement was identified, the review also drew out the scale of the future budget deficit. The self-assessment was reviewed by the council's Executive Management Board and was then presented to the Governance Committee in February 2022. In addition, the 2022/23 Budget Report presented to both Cabinet and Council in February 2022 included specific reference to the FM Code. An action plan has been developed which sets out the activities that will improve compliance with the FM Code.

One of the major issues that the review drew out was that the scale of the future budget deficit represented a significant risk and needed addressing via further work and progressing longer term plans. This was very clearly articulated in the budget report considered at the Council meeting in February 2023. CIPFA were subsequently commissioned to review the overall financial standing of the council and the processes applied by the authority when managing its resources. This review will focus on

## ANNUAL GOVERNANCE STATEMENT

actions needed to improve the council's financial resilience and future budget positions. It will also build upon and supplement the work undertaken in relation to the FM Code.

In addition, officers also undertook a self-assessment, using guidance issued by CIPFA, in respect how effectively the organisation's governance arrangements support the achievement of outcomes and delivery of value for money. The self-assessment reflects that the guidance that the AGS should focus on evaluation rather than description of arrangements. The assessment, which considered 'Planning for outcomes and VfM', 'Implementation and Delivery', 'Monitoring', 'Assurance Arrangements' and 'Adapting and Learning' identified some areas for improvement. These are reflected in Item 3 of the Significant Governance Issues section at the end of the document.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government. The CFO (the Executive Director for Finance and Commercialisation and Section 151 Officer but noting that this post was replaced by a new Executive Director of Corporate Services in February 2023) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and also alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

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

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

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

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

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

The council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis).

## ANNUAL GOVERNANCE STATEMENT

Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and are published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA statement on 'The Role of the Head of Internal Audit in Public Service Organisations (2019 Edition)'. This is aligned with the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment.

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

### REVIEW OF EFFECTIVENESS

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

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

- The views of Internal Audit regularly reported to Governance Committee via periodic 'Internal Audit: Progress Reports' which include executive summaries of new reviews undertaken in the period and noting that any audits rated as 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter, the Auditors Annual Report, and the Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' was that improvements have been maintained from the previous year to the extent that the overall opinion level can increase to 'Reasonable Assurance'. This is an improvement from the previous year which was rated as 'Limited Assurance'. The results across audit work performed during 2021-22 have not identified any systemic failings however, there are pockets across the council that require further work to enhance the control environment, noting that some of these areas have been impacted by structural changes that will need to settle. The impact of Covid 19 and changes to working patterns, including transformational changes across the council, may also highlight additional areas for focus and auditing over time.
- The Internal Audit Charter and delivery of the annual Internal Audit plan.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment.
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most

## ANNUAL GOVERNANCE STATEMENT

representative and comprehensive oversight is obtained. The returns are then reviewed and signed off by the relevant Executive Director.

- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls.
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission.
- The annual Risk Management report that is presented to the Governance Committee.
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

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

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

The 2020-21 AGS identified that there was inconsistency in respect of the extent to which succession planning had been formally considered within service areas across the council and that there were areas where there was reliance on a limited number of key individuals. The planned action was that Heads of Service would work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements.

During 2021-22 the Human Resources & Organisational Development Team developed a draft 'Talent Management and Succession Planning Strategy'. In developing this strategy, a range of research was analysed, including by the Chartered Institute of Personnel and Development and how other organisations have managed these processes. The council also secured three LGA consultancy days to support the work in this area, with desktop reviews of relevant policies and processes being undertaken together with interviews and focus groups with managers, employees, and the Trades Unions.

#### **Status of Planned Action: COMPLETED**

The new 'People Strategy', which incorporates 'Talent Management and Succession Planning', was agreed by the Executive Management Team and presented at the Leader's Cabinet Member Briefing in September 2022. Implementation of 'The People Strategy', including the 'Talent Management and Succession Planning' element, will be rolled out across the organisation with the support of the respective HR Business Partners and the Organisational Development Team.

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

### 2. Governance Issue



## ANNUAL GOVERNANCE STATEMENT

Full compliance with the new CIPFA Financial Management Code noting that in 2020/21, as part of its preparations for embedding enhanced standards of financial management, officers undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion was that there is good practice in financial management but also areas where improvement was identified.

### **Status of Planned Action: PARTIALLY COMPLETED**

The planned action was to implement the activities and actions arising out of the 'self-assessment' with an annual update on a 'self-assessment' basis to be provided to councillors via the AGS. The planned action was implemented in part however, it was overtaken by events in terms of the scale of the budget pressure faced during 2022-23 and reflected in the budget for 2023-24. The new S151 officer has, as part of the strategy to begin to tackle the financial challenges and commissioned the CIPFA to review the overall financial standing of the council and the processes applied by the authority when managing its resources. This review focusses on actions needed to improve the council's financial resilience and future budget positions. It will also build upon and supplement the work undertaken in relation to the FM Code.

**Responsible Officer:** Executive Director Corporate Services but noting that application of the FM Code is the collective responsibility of the council's leadership team which is defined as the collective group of elected councillors and senior officers.

### 3. Governance Issue

CIPFA guidance advises that "the AGS should include how effectively the organisation's governance arrangements support the achievement of outcomes and delivery of value for money. The AGS should focus on evaluation rather than description of arrangements and should reflect the context of the organisation's achievement of outcomes and value for money ('vfm'). A self-assessment, using guidance issued by CIPFA, was undertaken by officers which identified the following areas for improvement.

- a) **Benchmarking** – To support a consistent approach to benchmarking at a corporate level the council was to assess the potential use of benchmarking tools that consolidate and utilise national data. This work was led by Strategy & Performance in partnership with Finance and other areas across the council.

#### **Status of Planned Action: COMPLETED**

The benefit of developing a consistent approach to the use of benchmarking tools, that consolidate and utilise national data, was given careful consideration. It was identified that benchmarking is undertaken in a number of areas and as a base activity when new projects are initiated. Good use is also made of peer reviews with, where appropriate, with results used to understand cost and service comparables. It was concluded that the current approach, whereby service areas access relevant and specific benchmarking data on an ad hoc basis, was preferable compared with the cost benefit of the council subscribing to one or more of the providers that collate and provide of suite of general benchmarking data.

**Lead:** Strategy & Performance Director and Head of Financial Planning & Management

- b) **Benefits realisation** - Post implementation and lessons learned reviews are standard, with lessons learned papers (including user/employee feedback) feeding into new project initiation sessions and relevant role forums. A 'benefits realisation framework' had been developed (along with additional templates such as a benefit map, profile, and post investment report) and was to be rolled out across a small number of teams initially and then across the council as a standard part of key project monitoring going forwards.

#### **Status of Planned Action: COMPLETED**

The 'benefits realisation framework' was rolled out and is now in use on a regular basis for projects and has been adopted as a formal part of the project management methodology and toolkit. It is also being used as a tool to understand and track savings proposals.

## ANNUAL GOVERNANCE STATEMENT

**Lead:** Strategy & Performance Director

- c) Contracting arrangements** - Whilst commercial contract monitoring is robust and undertaken in accordance with a contract management framework and performance is measured against contractual indicators for Strategic and Key Managed contracts, a wider review of contracted delivery arrangements across the council was to be scoped to ensure that there is a consolidated view of all such arrangements and that outcomes and vfm are being delivered and savings opportunities are considered. This review was to be undertaken in alignment with the Strategic Procurement Programme and as a cross-council exercise led by Supplier Management.

**Status of Planned Action: COMPLETED**

The review in respect of the approach to managing contracts was completed and a Contract Management Framework (documented in a guide) is to be rolled out by End Q2 23/24. This is aligned to the Strategic Procurement Programme which has a robust project and programme governance structure. Resource limitations will, however, mean that the optimal approach to maximise benefits is unachievable and therefore a focus will be given to education and support of service areas rather than a comprehensive wrap around support.

**Lead:** Head of Supplier Management

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

### Signed

.....  
Mike Harris  
Chief Executive

On behalf of Southampton City Council

.....  
Councillor Satvir Kaur  
Leader of the Council

## AUDITOR'S REPORT

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